

CROATIAN PARLIAMENT

3328

Pursuant to Article 89 of the Constitution of the Republic of Croatia, I hereby issue the

DECISION

PROMULGATING THE CREDIT INSTITUTIONS ACT

I hereby promulgate the Credit Institutions Act passed by the Croatian Parliament at its session on 18 December 2013.

Class: 011-01/13-01/308

No.: 71-05-03/1-13-2

Zagreb, 20 December 2013

The President of the Republic of Croatia
Ivo Josipović, m. p.

CREDIT INSTITUTIONS ACT

I GENERAL PROVISIONS

Subject matter

Article 1

This Act governs:

- 1) the conditions for the establishment, operation and dissolution of credit institutions with head offices in the Republic of Croatia, as well as their prudential supervision;
- 2) the conditions under which legal persons with head offices outside the Republic of Croatia may provide banking and/or financial services in the Republic of Croatia; and
- 3) publication requirements for the Croatian National Bank in the field of prudential regulation and supervision of credit institutions.

Compliance with the regulations of the European Union

Article 2

(1) This Act transposes the following directives into the legal system of the Republic of Croatia:

1) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27. 6. 2013);

2) Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (OJ L 372, 31. 12. 1986), as last amended by Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006 amending Council Directives 78/660/EEC on the annual accounts of certain types of companies, 83/349/EEC on consolidated accounts, 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions and 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings (OJ L 224, 16. 8. 2006);

3) Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes (OJ L 135, 31. 5. 1994), as last amended by Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay (OJ L 68, 13. 3. 2009);

4) Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001 on the reorganisation and winding up of credit institutions (OJ L 125, 5. 5. 2001); and

5) Council Directive 89/117/EEC of 13 February 1989 on the obligations of branches established in a Member State of credit institutions and financial institutions having their head offices outside that Member State regarding the publication of annual accounting documents (OJ L 44, 16. 2. 1989).

(2) This Act further regulates the implementation of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27. 6. 2013, hereinafter referred to as 'Regulation (EU) No 575/2013').

Terms used in this Act

Article 3

The terms used in this Act shall have the following meaning:

1) '*discretionary pension benefits*' shall have the meaning as defined in Article 4, paragraph (1), item (73) of Regulation (EU) No 575/2013;

- 2) '*subsidiary*' shall have the meaning as defined in Article 4, paragraph (1), item (16) of Regulation (EU) No 575/2013;
- 3) '*insurance undertaking*' shall have the meaning as defined in Article 4, paragraph (1), item (5) of Regulation (EU) No 575/2013;
- 4) '*ancillary services undertaking*' shall have the meaning as defined in Article 4, paragraph (1), item (18) of Regulation (EU) No 575/2013;
- 5) '*reinsurance undertaking*' shall have the meaning as defined in Article 4, paragraph (1), item (6) of Regulation (EU) No 575/2013;
- 6) '*asset management company*' shall have the meaning as defined in Article 4, paragraph (1), item (19) of Regulation (EU) No 575/2013;
- 7) '*host Member State*' shall have the meaning as defined in Article 4, paragraph (1), item (44) of Regulation (EU) No 575/2013;
- 8) '*financial institution*' shall have the meaning as defined in Article 4, paragraph (1), item (26) of Regulation (EU) No 575/2013;
- 9) '*leverage*' shall have the meaning as defined in Article 4, paragraph (1), item (93) of Regulation (EU) No 575/2013;
- 10) '*financial holding company*' shall have the meaning as defined in Article 4, paragraph (1), item (20) of Regulation (EU) No 575/2013;
- 11) '*financial instrument*' shall have the meaning as defined in Article 4, paragraph (1), item (50) of Regulation (EU) No 575/2013;
- 12) '*group of connected clients*' shall have the meaning as defined in Article 4, paragraph (1), item (39) of Regulation (EU) No 575/2013;
- 13) '*internal approaches*' means the Internal Ratings Based Approach referred to in Article 143, paragraph (1), the Internal Models Approach referred to in Article 221, the Own Estimates Approach referred to in Article 225, an Advanced Measurement Approach referred to in Article 312, paragraph (2), the Internal Model Method referred to in Articles 283 and 363 and the Internal Assessment Approach referred to in Article 259, paragraph (3) of Regulation (EU) No 575/2013;
- 14) '*investment firm*' shall have the meaning as defined in Article 4, paragraph (1), item (2) of Regulation (EU) No 575/2013;
- 15) '*trading book*' shall have the meaning as defined in Article 4, paragraph (1), item (86) of Regulation (EU) No 575/2013;

16) '*consolidating supervisor*' shall have the meaning as defined in Article 4, paragraph (1), item (41) of Regulation (EU) No 575/2013;

17) '*consolidated basis*' shall have the meaning as defined in Article 4, paragraph (1), item (48) of Regulation (EU) No 575/2013;

18) '*consolidated situation*' shall have the meaning as defined in Article 4, paragraph (1), item (47) of Regulation (EU) No 575/2013;

19) '*control*' shall have the meaning as defined in Article 4, paragraph (1), item (37) of Regulation (EU) No 575/2013;

20) '*credit institution*' shall have the meaning as defined in Article 4, paragraph (1), item (1) of Regulation (EU) No 575/2013;

21) '*qualifying holding*' shall have the meaning as defined in Article 4, paragraph (1), item (36) of Regulation (EU) No 575/2013;

22) '*home Member State*' shall have the meaning as defined in Article 4, paragraph (1), item (43) of Regulation (EU) No 575/2013;

23) '*parent credit institution in a Member State*' shall have the meaning as defined in Article 4, paragraph (1), item (28) of Regulation (EU) No 575/2013, but excluding an RC parent credit institution;

24) '*EU parent credit institution*' shall have the meaning as defined in Article 4, paragraph (1), item (29) of Regulation (EU) No 575/2013;

25) '*RC parent credit institution*' means a credit institution which in the Republic of Croatia has a credit or a financial institution as a subsidiary or which holds a participation in such a credit institution or financial institution, and which is not itself a subsidiary of another credit institution authorised in the Republic of Croatia, or of a financial holding company or mixed financial holding company set up in the Republic of Croatia;

26) '*parent financial holding company in a Member State*' shall have the meaning as defined in Article 4, paragraph (1), item (30) of Regulation (EU) No 575/2013, but excluding an RC parent financial holding company;

27) '*EU parent financial holding company*' shall have the meaning as defined in Article 4, paragraph (1), item (31) of Regulation (EU) No 575/2013;

28) '*RC parent financial holding company*' means a financial holding company which is not a subsidiary of a credit institution authorised in the Republic of Croatia or of a financial holding company or mixed financial holding company set up in the Republic of Croatia;

29) '*parent mixed financial holding company in a Member State*' shall have the meaning as defined in Article 4, paragraph (1), item (32) of Regulation (EU) No 575/2013, but excluding an RC parent mixed financial holding company;

30) '*EU parent mixed financial holding company*' shall have the meaning as defined in Article 4, paragraph (1), item (33) of Regulation (EU) No 575/2013;

31) '*RC parent mixed financial holding company*' means a mixed financial holding company which is not itself a subsidiary of a credit institution authorised in the Republic of Croatia, or of a financial holding company or mixed financial holding company set up in the Republic of Croatia;

32) '*parent undertaking*' shall have the meaning as defined in Article 4, paragraph (1), item (15) of Regulation (EU) No 575/2013;

33) '*mixed financial holding company*' shall have the meaning as defined in Article 4, paragraph (1), item (21) of Regulation (EU) No 575/2013;

34) '*mixed-activity holding company*' shall have the meaning as defined in Article 4, paragraph (1), item (22) of Regulation (EU) No 575/2013;

35) '*competent authority*' shall have the meaning as defined in Article 4, paragraph (1), item (40) of Regulation (EU) No 575/2013;

36) '*authorisation*' shall have the meaning as defined in Article 4, paragraph (1), item (42) of Regulation (EU) No 575/2013;

37) '*branch*' shall have the meaning as defined in Article 4, paragraph (1), item (17) of Regulation (EU) No 575/2013;

38) '*indirect holder*' means a holder of shares, holdings or other rights providing him with a share of the capital or the voting rights of a legal person, which is:

1. a person for whose account another person (a direct holder) has acquired shares, holdings or other rights in a legal person;

2. a person closely linked with a direct holder of shares, holdings or other rights in a legal person and that person's immediate family members; or

3. a person who is an immediate family member of a direct holder;

(39) '*indirect holding*' means a holding in the capital of a legal person or an acquisition of the voting rights of a legal person through a third party;

40) '*sub-consolidated basis*' shall have the meaning as defined in Article 4, paragraph (1), item (49) of Regulation (EU) No 575/2013;

41) '*own funds*' shall have the meaning as defined in Article 4, paragraph (1), item (118) of Regulation (EU) No 575/2013;

42) '*securitisation*' shall have the meaning as defined in Article 4, paragraph (1), item (61) of Regulation (EU) No 575/2013;

43) '*securitisation position*' shall have the meaning as defined in Article 4, paragraph (1), item (62) of Regulation (EU) No 575/2013;

44) '*securitisation special purpose entity*' or '*SSPE*' shall have the meaning as defined in Article 4, paragraph (1), item (66) of Regulation (EU) No 575/2013;

45) '*systemic risk*' means a risk of disruption in the financial system with the potential to have serious negative consequences for the financial system and the economy as a whole;

46) '*systemically important credit institution*' means an EU parent credit institution, an EU parent financial holding company, and EU parent mixed financial holding company or a credit institution the failure or malfunction of which could lead to systemic risk;

47) '*credit risk mitigation*' shall have the meaning as defined in Article 4, paragraph (1), item (57) of Regulation (EU) No 575/2013;

48) '*central counterparty*' or '*CCP*' shall have the meaning as defined in Article 4, paragraph (1), item (34) of Regulation (EU) No 575/2013;

49) '*central banks*' shall have the meaning as defined in Article 4, paragraph (1), item (46) of Regulation (EU) No 575/2013;

50) '*ESCB central banks*' shall have the meaning as defined in Article 4, paragraph (1), item (45) of Regulation (EU) No 575/2013;

51) '*participation*' shall have the meaning as defined in Article 4, paragraph (1), item (35) of Regulation (EU) No 575/2013;

52) '*close links*' shall have the meaning as defined in Article 4, paragraph (1), item (38) of Regulation (EU) No 575/2013;

53) '*senior management*' means those natural persons who exercise executive functions in the credit institution responsible for day-to-day operations of the credit institutions and are accountable for the day-to-day management of the credit institution to the management board;

54) '*infringed protected value*' means maintaining banking system stability and protecting client assets, which is, for the purposes of misdemeanour and other court proceedings and in order to achieve the purpose of punishment, expressed as the total annual net interest and fee income in a business year preceding the year when the offence was committed, including the gross income, and is disclosed in the register of annual financial statements kept with the Financial Agency.

Exceptionally, if a misdemeanour has been committed by a subsidiary of a parent undertaking in the Republic of Croatia, the relevant net interest and fee income shall be determined based on consolidated annual financial statements of the ultimate parent undertaking in the Republic of Croatia.

Cooperation within the European System of Financial Supervision

Article 4

(1) In the exercise of its duties, the Croatian National Bank shall take into account the convergence in respect of supervisory tools and supervisory practices in the application of this Act, Regulation (EU) No 575/2013 and other regulations. For that purpose, it shall:

1) as a party to the European System of Financial Supervision, cooperate with trust and full mutual respect, in particular when ensuring the flow of appropriate and reliable information between itself and other parties to the ESFS, in accordance with the principle of sincere cooperation set out in Article 4, paragraph (3) of the Treaty on European Union;

2) participate in the activities of the European Banking Authority and, as appropriate, in the colleges of supervisors;

3) make every effort to comply with those guidelines and recommendations issued by the European Banking Authority in accordance with Article 16 of Regulation (EU) No 1093/2010 and to respond to the warnings and recommendations issued by the European Systemic Risk Board pursuant to Article 16 of Regulation (EU) No 1092/2010; and

4) cooperate closely with the European Systemic Risk Board.

(2) The Croatian National Bank shall, in the exercise of its duties, duly consider the potential impact of its decisions and actions on the stability of the financial system in the other Member States concerned and, in particular, in emergency situations, based on the information available at the relevant time.

Credit institution

Article 5

(1) A credit institution having its head office in the Republic of Croatia may, under the conditions laid down in this Act, be established as a bank, a savings bank or a housing savings bank.

(2) For the purposes of this Act, the term 'credit institution', where not further qualified by the words 'of a Member State' or 'of a third country', means a credit institution which has its head office in the Republic of Croatia and is authorised by the Croatian National Bank. Exceptionally, for the purposes of this Title, the term 'credit institution' shall be used for all credit institutions regardless of the country where they have their head office. For the purposes of Title XXII Supervision on a consolidated basis, the term 'subsidiary credit institution' shall be used for any credit institution

having the status of a subsidiary credit institution regardless of the country where it has its head office.

Use of name in legal transactions

Article 6

(1) The words 'credit institution' and 'bank' or derivatives of these words, if contained in the firm name, may be entered in the register of companies or used in legal transactions only by:

- 1) a legal person authorised by the Croatian National Bank as a bank;
- 2) credit institutions providing services under Article 85 or Article 89 of this Act;
- 3) credit institutions referred to in Article 87 of this Act;
- 4) members of a group of credit institutions; and
- 5) representative offices of credit institutions of the Member States or third countries which carry out activities within the territory of the Republic of Croatia.

(2) By way of derogation from paragraph (1) of this Article, the words 'credit institution' and 'bank' or derivatives of these words, if contained in the firm name, may be entered in the register of companies and used in legal transactions by other legal persons where provided for in another law.

(3) A legal person authorised as a bank under this Act may enter the words 'savings bank' or derivatives of these words, if contained in the firm name, in the register of companies and use them in legal transactions.

(4) Credit institutions from other Member States may use within the territory of the Republic of Croatia the same name as they use in the home Member State. Exceptionally, in the situation where there is already a credit institution operating within the territory of the Republic of Croatia under the same or similar name, the Croatian National Bank may, for the purposes of clarification, require that the name of a credit institution of another Member State be accompanied by certain explanatory particulars.

Banking services

Article 7

(1) Banking services are the taking of deposits or other repayable funds from the public and the granting of credits for own account from these funds.

(2) Unless otherwise provided for in this Act, 'deposit' means a cash deposit as defined in the Civil Obligations Act.

(3) For the purposes of this Act, the following shall not constitute the taking of deposits or other repayable funds from the public referred to in paragraph (1) of this Article:

1) receipt of funds that are immediately exchanged for electronic money by an electronic money institution;

2) receipts of funds by the Republic of Croatia or other Member States, by regional or local authorities of the Republic of Croatia or of other Member States, by public international bodies or which one or more Member States are members;

3) taking of deposits from its members by a credit union;

4) receipt of funds as membership fees, voluntary contributions or similar non-repayable funds by associations;

5) receipts from the issuance of debt securities by a legal person, other than a credit institution, by which it finances its core activities, provided its core activity is not the granting of credits; or

6) receipts of funds by payment institutions from payment service users for the provision of payment services in accordance with a special law.

Core and additional financial services

Article 8

(1) For the purposes of this Act, core financial services are as follows:

1) taking of deposits or other repayable funds;

2) lending, including consumer credit, mortgage credit and, where permitted by a special law, financing of commercial transactions, including export financing based on the purchase at a discount without recourse of non-current, non-matured receivables collateralised with a financial instrument (forfeiting);

3) repurchase of receivables with or without recourse (factoring);

4) financial leasing;

5) issuance of guarantees or other commitments;

6) trading for own account or for the accounts of clients in:

– money market instruments;

– transferable securities;

– foreign exchange, including currency exchange transactions;

– financial futures and options;

– exchange and interest-rate instruments;

7) money transmission services in accordance with special laws;

8) credit reference services, such as collection, analysis and provision of information on the creditworthiness of legal and natural persons that conduct their business independently;

9) issuing and administering other means of payment, if the provision of such services is not considered the provision of services within the meaning of item (7) of this paragraph and pursuant to a special law;

10) safe custody services;

11) money broking;

12) participation in issues of financial instruments as well as the provision of services relating to issues of financial instruments in accordance with the law governing the capital market;

13) portfolio management and advice;

14) safekeeping of financial instruments and services related to the safekeeping of financial instruments in accordance with the law governing the capital market;

15) advice to legal persons on capital structure, business strategy and related issues as well as the provision of services relating to mergers and the acquisition of shares and holdings in other companies;

16) issuance of electronic money; and;

17) investment and ancillary services and activities prescribed in the special law governing the capital market and not included in services referred to in items (1) to (16) of this paragraph.

(2) For the purposes of this Act, additional financial services are as follows:

1) activities related to the sale of insurance policies in accordance with the law governing insurance;

2) payment systems management services in accordance with the provisions of a special law;

3) other services which a credit institution may provide in accordance with the provisions of a special law; and

4) other services or activities that are, in terms of the manner of the provision and risk to which a credit institution is exposed, similar to core financial services referred to in paragraph (1) of this Article and listed in the credit institution's authorisation.

Mutually recognised services

Article 9

(1) For the purposes of this Act, mutually recognised services are:

- 1) mutually recognised banking services, and
- 2) mutually recognised financial services.

(2) Mutually recognised banking services are the services referred to in Article 7 of this Act.

(3) Mutually recognised financial services are the services referred to in Article 8, paragraph (1) of this Act.

Advertising

Article 10

Credit institutions with head offices in other Member States may advertise their services in the Republic of Croatia, subject to any rules of the Republic of Croatia governing such advertising and adopted in the interests of the general good.

Croatian National Bank competence

Article 11

(1) For the purposes of this Act and Regulation (EU) No 575/2013, the Croatian National Bank shall be the authority competent for supervising credit institutions and empowered to adopt subordinate legislation for the purpose of implementing Regulation (EU) No 575/2013.

(2) The Croatian National Bank shall be the competent authority for the purposes of Article 458, paragraph (1) of Regulation (EU) No 575/2013 in the part related to the adoption of measures to limit systemic risk associated with credit institutions.

(3) The Croatian National Bank shall be empowered to monitor the compliance of credit institutions with implementing and regulatory technical standards.

Direct provision of services

Article 12

(1) For the purposes of this Act, it shall be deemed that an institution of a Member State directly provides mutually recognised services within the territory of another Member State where it has not established a branch and:

1) where it concludes legal arrangements within the territory of that Member State, the subject of which are one or more mutually recognised services; or

2) where it offers such service within the territory of that Member State to a natural or legal person who has its domicile, normal place of residence or head office within the territory of that Member State, through its representatives, intermediaries or by some other means.

(2) For the purposes of this Act, it shall be deemed that an institution directly provides services within the territory of the Republic of Croatia on a temporary basis where it does not provide mutually recognised services regularly, frequently or on an ongoing basis.

Member State and third country

Article 13

(1) For the purposes of this Act, 'Member State' means a Member State of the European Union and a contracting party to the Agreement on the European Economic Area (OJ L 1, 3.1. 1994).

(2) For the purposes of this Act, 'third country' means a foreign country that is not a Member State.

Representative office of a credit institution

Article 14

For the purposes of this Act, 'representative office of a credit institution' means a legally dependent part of a credit institution which may only carry out activities related to market research, representation and advertising of the credit institution which established it and the providing of information on the credit institution which established it.

Undertakings linked by management on a unified basis

Article 15

(1) 'Undertakings linked by management on a unified basis' means undertakings which are not linked in any of the ways referred to in Article 3, item (19) of this Act but are linked in one of the following ways:

1) the undertakings are on an equal footing and are linked by management on a unified basis pursuant to a contract or provisions of the Articles of Association;

2) the undertakings are controlled by the same third person; or

3) the majority of their management or supervisory boards consists of the same persons.

(2) In the cases referred to in paragraph (1) of this Article, the Croatian National Bank shall issue a decision to determine how consolidation is to be carried out.

Persons acting in concert

Article 16

(1) 'Persons acting in concert' means:

1) natural or legal persons who cooperate with each other or with the credit institution on the basis of an agreement, either express or tacit, either oral or written, aimed at acquiring shares with voting rights or coordinated exercising of voting rights; or

2) legal persons interconnected within the meaning of the provisions of the Companies Act.

(2) The following shall be deemed to be acting in concert:

1) persons linked only by circumstances which indicate coordination in the acquisition of shares or joint intent of the persons to acquire shares;

2) members of management or supervisory boards of undertakings acting in concert;

3) members of management or supervisory boards and the undertakings in which they are members of these bodies; or

4) a management company and all investment funds managed by that company.

(3) Any natural and/or legal persons are deemed to act in concert with a particular legal person when one of them directly or indirectly controls the other legal person or legal persons.

(4) Natural persons are deemed to act in concert if they are linked by consanguinity in the direct line without restraint and in the lateral line ending with brothers and sisters, or if they are marital or extramarital partners.

(5) Persons are also deemed to act in concert when they are interconnected within the meaning of the provisions of the law governing the takeover of joint stock companies.

Group of credit institutions

Article 17

(1) For the purposes of this Act, 'group of credit institutions' means credit or financial institutions of which at least one has the status of:

- 1) a parent credit institution;
 - 2) a parent financial holding company having at least one subsidiary credit institution;
 - 3) a credit institution which is linked with another legal person within the group of credit institutions by management on a unified basis referred to in Article 15, paragraph (1), item (1) or (3) of this Act; or
 - 4) a parent mixed financial holding company having at least one subsidiary credit institution.
- (2) By way of derogation from paragraph (1) of this Article, a group of credit institutions shall be a group of credit institutions as determined, within its competence, by the competent authority of another Member State or of a third country.

II STATUS PROVISIONS

II.1 APPLICATION OF THE PROVISIONS OF THE COMPANIES ACT

Application of the provisions of the Companies Act

Article 18

The provisions of the Companies Act shall apply to credit institutions, unless otherwise prescribed in this Act.

II.2 INITIAL CAPITAL AND SHARES OF A CREDIT INSTITUTION

Initial capital of a credit institution

Article 19

- (1) The initial capital of a bank shall not be less than HRK 40 million.
- (2) The initial capital of a savings bank shall not be less than HRK 8 million.
- (3) The initial capital of a housing savings bank shall not be less than HRK 20 million.
- (4) Initial capital shall comprise one or more of the items referred to in Article 26, paragraph (1), items (a) to (e) of Regulation (EU) No 575/2013.

Shares of a credit institution

Article 20

- (1) A credit institution shall be a joint stock company.

(2) The shares of a credit institution must be registered.

(3) The shares of a credit institution shall be fully paid-up in cash before the institution is entered into the register of companies, and before any increase in the initial capital is entered into the register.

(4) By way of derogation from paragraph (3) of this Article, the shares of a credit institution need not be paid-up in cash if the initial capital has increased due to:

1) the implementation of changes in the status referred to in Article 63 of this Act to which the credit institution is a party, subject to the prior approval of the Croatian National Bank; or

2) the conversion of a capital instrument or another cash liability of the credit institution to its initial capital in accordance with this Act or Regulation (EU) No 575/2013.

(5) The shares of a credit institution shall be issued in non-material form.

(6) Holders of shares of a credit institution shall in exercising their rights attached to shares act in the interest of the credit institution.

(7) Where shares of a credit institution are held in a custody account, the custody account must be registered.

Credits and guarantees for the acquisition of shares or holdings

Article 21

(1) A credit institution may not directly or indirectly grant credits or issue guarantees or other commitments for the acquisition of its own shares or of shares and holdings in undertakings in whose capital it participates with a share of 20% or more, unless such acquisition of shares or holdings is to result in the termination of all types of capital links between the credit institution and the undertaking in question.

(2) All legal arrangements the economic substance of which is equivalent to credit shall be deemed to be the granting of credits referred to in paragraph (1) of this Article.

(3) A credit institution may not directly or indirectly grant credits or issue guarantees or other commitments for the acquisition of other financial instruments issued by that credit institution or an undertaking in whose capital it participates with a share of 20% or more, which, due to their characteristics, are included in the calculation of the credit institution's own funds.

(4) By way of derogation from paragraph (1) of this Article, a credit institution may grant credits or issue credit guarantees to its employees and employees of undertakings in which it holds participation for the acquisition of shares of that credit institution. The total of such credits and guarantees shall not exceed 10% of the credit institution's initial capital.

Preferential shares of a credit institution

Article 22

The amount of preferential shares shall not exceed one quarter of the credit institution's total initial capital.

Prohibition on the acquisition of shares

Article 23

- (1) Where a credit institution has a qualifying holding in a legal person, such legal person may not acquire a qualifying holding in that credit institution.
- (2) Where a legal person has a qualifying holding in a credit institution, such credit institution may not acquire a qualifying holding in that legal person.
- (3) The exemptions from the limits on holdings referred to in Article 148, paragraph (2) of this Act shall also apply to the limits referred to in paragraph (2) of this Article.

II.3 SHAREHOLDERS OF A CREDIT INSTITUTION

Approval to acquire a qualifying holding

Article 24

- (1) A legal or natural person and persons acting in concert shall submit to the Croatian National Bank an application for prior approval for the acquisition of shares of a credit institution on the basis of which they, individually or jointly, directly or indirectly, acquire a qualifying holding in the credit institution.
- (2) Holders of a qualifying holding shall obtain prior approval from the Croatian National Bank for each further direct or indirect acquisition of shares of a credit institution on the basis of which their holding would reach or exceed 20%, 30% or 50% of the capital or of the voting rights of a credit institution.
- (3) Persons who obtained the prior approval referred to in paragraphs (1) and (2) of this Article shall, within 12 months of the adoption of the decision on the prior approval, complete the acquisition of a qualifying holding and the holding referred to in paragraph (2) of this Article and notify the Croatian National Bank thereof.
- (4) Persons who obtained the prior approval referred to in paragraphs (1) and (2) of this Article and who will not complete the acquisition of a qualifying holding within the period referred to in paragraph (3) of this Article may, no later than 15 days before the expiry of that period, submit a reasoned request to the Croatian National Bank for an extension of that period. This extension may be up to six months.

(5) Should persons who obtained the prior approval referred to in paragraphs (1) and (2) of this Article take a decision to sell or otherwise dispose of their shares so as to reduce their holdings below the threshold for which they obtained prior approval, they shall notify the Croatian National Bank in advance.

(6) Persons who have obtained the prior approval referred to in paragraphs (1) and (2) of this Article, and who have thereafter sold or otherwise disposed of their shares and thereby reduced their holdings below the threshold for which they obtained prior approval, shall submit an application to the Croatian National Bank for prior approval to acquire a qualifying holding or the holding referred to in paragraph (2) of this Article if, following the expiry of a period of 12 months of the adoption of the decision on the prior approval, they again intend to acquire a qualifying holding or the holding referred to in paragraph (2) of this Article in the amount for which they obtained prior approval.

(7) Before adopting a decision whether to grant prior approval to acquire a qualifying holding or the holding referred to in paragraph (2) of this Article, the Croatian National Bank shall consult the competent supervisory authority if the acquirer is one of the following:

1) a credit institution, an insurance or reinsurance undertaking or a management company within the meaning of the law governing the operation of open-ended investment funds (hereinafter referred to as 'UCITS management company'), a pension company within the meaning of the law governing the operation of pension funds (hereinafter referred to as 'pension company'), an investment firm authorised in another Member State, or if the acquisition falls within the competence of another supervisory authority;

2) the parent undertaking of a credit institution, insurance or reinsurance undertaking, UCITS management company, a pension company or an investment firm authorised in another Member State, or if the acquisition falls within the competence of another supervisory authority; or

3) a natural or legal person controlling a credit institution, insurance or reinsurance undertaking, UCITS management company, a pension company or an investment firm authorised in another Member State, or if the acquisition falls within the competence of another supervisory authority.

(8) In the case referred to in paragraph (7) of this Article, the Croatian National Bank shall in an explanation of a decision on the prior approval indicate any views expressed by the other competent authorities.

(9) Legal persons holding qualifying holdings shall notify the Croatian National Bank of any changes in their status, including participation in mergers by acquisition, mergers by formation of a new undertaking, or divisions of an undertaking, within eight days of effecting such changes.

(10) A financial holding company or mixed-activity financial holding company which, in accordance with the approval to acquire a qualifying holding, has the status of the parent undertaking of a credit institution shall notify the Croatian National Bank of any change in its management board within eight days of effecting the change.

(11) The provisions on the percentage of voting rights of the law governing the capital market shall be applied *mutatis mutandis* to determine the percentages referred to in paragraphs (1) and (2) of this Article.

(12) Voting rights or shares which credit institutions may hold as a result of providing the underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis shall not be taken into account when determining the size of a qualifying holding or the holding referred to in paragraph (2) of this Article, provided that those rights are, on the one hand, not used to intervene in the management of the issuer and, on the other, disposed of within one year of acquisition.

(13) Shareholders of a credit institution who, after acquiring shares of the credit institution, become persons acting in concert, owing to which they as persons acting in concert jointly hold 10%, 20%, 30% or 50% of the capital or of the voting rights of the credit institution, shall submit to the Croatian National Bank an application to acquire a qualifying holding within 30 days of the date when they became persons acting in concert. If they fail to do so, the Croatian National Bank shall act in accordance with Article 30 of this Act.

(14) Where an individual person or one of the persons acting in concert acquires a qualifying holding, a holding of 20% or more, or 30% or more, or 50% or more of the capital or voting rights by inheritance, or in another case when the person did not know, or should not have known that it would exceed, or would have exceeded the stated percentages, the person shall submit an application for such an acquisition within 30 days of the day on which that person became aware or should have become aware of such an acquisition. If such person fails to do so, the Croatian National Bank shall act in accordance with Article 30 of this Act.

(15) Should qualifying holdings increase due to the reduction in the initial capital of the credit institution or other similar action by the credit institution so as to exceed 10%, 20%, 30% or 50%, holders of qualifying holdings shall submit an application for further acquisition of a holding in the capital or of the voting rights of the credit institution within 30 days of the date when they became aware or should have become aware of the increase in their holdings due to the credit institution's action. If such person fails to do so, the Croatian National Bank shall act in accordance with Article 30 of this Act.

(16) The provisions of this Title shall apply *mutatis mutandis* to the holders of qualifying holdings referred to in paragraphs (13), (14) and (15) of this Article.

Application to acquire a qualifying holding

Article 25

(1) An application for prior approval to acquire a qualifying holding shall be accompanied by:

1) for an acquirer of a qualifying holding that is a legal person:

a) a certificate from the register of companies or other relevant register, in the form of an original or a certified copy not older than three months, in case of legal persons having their head office outside the Republic of Croatia;

b) a certificate from the register of shareholders (book of shares) or book of holdings, in the form of an original or a certified copy;

c) a list of natural persons who are the ultimate shareholders of the acquirer or holders of holdings in the acquirer, listing the following data: name, address or domicile, other data for identification, the total nominal value of the shares and percentage of the initial capital of the acquirer, and information referred to in paragraph (1), item (2), sub-items (b) and (c) of this Article;

d) a list of persons connected in the manner referred to in Article 16 of this Act with the acquirer and the manner in which they are connected;

e) audited financial statements of the acquirer for the two preceding years of business;

f) evidence on the availability of funds for the acquisition of a qualifying holding and a description of the method or source of financing;

g) a description of the requested prior approval, including the total nominal value of the shares and percentage of the initial capital of the credit institution in which the qualifying holding is to be acquired, explanation of the objectives to be achieved by the acquisition of the qualifying holding and the strategic direction of the acquirer in relation to holdings in credit and financial institutions;

h) a description of the acquirer's activities in relation to the acquisition preceding the application;

i) evidence that the acquirer has not been convicted of a misdemeanour, information on whether criminal or misdemeanour proceedings have been initiated against the acquirer, and evidence that the acquirer has not been convicted by a judgement with final force and effect of any of the following criminal offences:

– a criminal offence against life and limb (Title X), a criminal offence against values protected by international law (Title XIII), a criminal offence against sexual freedom and sexual morality (Title XIV), a criminal offence against property (Title XVII), with the exception of violations of copyrights or of the rights of performing artists (Article 229), illicit use of an author's work or an artistic performance (Article 230), violations of the rights of producers of audio or video recordings and the rights related to radio broadcasting (Article 231), and violations of patent rights (Article 232), a criminal offence against the payment system and the security of its operations (Title XXI), a criminal offence relating to the authenticity of documents (Title XXIII), a criminal offence relating to breaches of official duties (Title XXV), with the exception of failures to execute orders (Article 340) and violations of a duty to guard the state border (Article 341), under the Criminal Code (Official Gazette 110/1997, 27/1998, 50/2000, 129/2000, 51/2001, 111/2003, 190/2003, 105/2004, 84/2005, 71/2006, 110/2007, 152/2008 and 57/2011);

– a criminal offence under the Securities Market Act (Official Gazette 84/2002 and 138/2006);

– a criminal offence under the Act on Criminal Offences Against the Capital Market (Official Gazette 152/2008);

– a crime against humanity and human dignity (Title IX), a criminal offence against life and limb (Title X), a criminal offence relating to labour relations and social security (Title XII), a criminal offence against sexual freedom (Title XVI), a criminal offence against property (Title XXIII), a criminal offence against the economy (Title XXIV), a criminal offence relating to computer forgery (Article 270) and computer fraud (Article 271), a criminal offence relating to forgery (Title XXVI), or a criminal offence relating to breaches of official duties (Title XXVIII) under the Criminal Code;

– a criminal offence under the Companies Act;

– a criminal offence under the Investment Funds Act; or

– a criminal offence under the Accounting Act;

j) evidence that bankruptcy proceedings have not been initiated or opened against the property of the acquirer;

k) an opinion or approval of the competent authority of a credit institution of a Member State or a third country in relation to the proposed acquisition; and

1. for an acquirer of a qualifying holding that is a financial holding company or mixed financial holding company, evidence that the criteria referred to in Article 38 of this Act have been met;

2. for an acquirer of a qualifying holding that is a natural person:

a) name, address or domicile, and other data for identification;

b) curriculum vitae of the acquirer, listing all companies, and their addresses, with whom he/she is or was employed, of which he/she is or was a member of the management or supervisory board, or in which he/she is or was a holder of a qualifying holding;

c) evidence that the acquirer has not been convicted of a misdemeanour, information on whether criminal or misdemeanour proceedings have been initiated against the acquirer, and evidence that the acquirer has not been convicted by a judgement with final force and effect of any of the criminal offences referred to in paragraph (1), item (1), sub-item (i) of this Article; and

d) documents referred to in item (1), sub-items (d), (f), (g) and (h) of this paragraph.

(2) The Croatian National Bank shall be competent to obtain data on judgements with final force and effect regarding the acquirer of criminal offences and misdemeanours committed in the Republic of Croatia or of criminal offences committed in a Member State from the criminal history records and misdemeanour records or from the European Criminal Records Information System in accordance with the law governing legal consequences of convictions, criminal records and rehabilitation. The Croatian National Bank must provide a reasoned explanation for each request

from the records. For legal persons with head offices in the Republic of Croatia, the Croatian National Bank shall obtain a certificate from the register of companies acting *ex officio*.

(3) When deciding whether to grant prior approval, the Croatian National Bank shall consult the European Banking Authority database of administrative penalties.

(4) Where the acquisition of a qualifying holding may result in dominant influence over or control of the credit institution's operation, in addition to the documents referred to in paragraph (1), item (1) or (2) of this Article, the acquirer shall enclose the following with the application:

1) a business strategy of the credit institution in which the qualifying holding is acquired;

2) a business plan for the next three years of business, including balance sheets and profit and loss accounts;

3) planned changes in the organisational, management and personnel structure of the credit institution;

4) a plan of activities regarding the creation of new internal bylaws or amendments to the existing internal bylaws of the credit institution; and

5) a plan of activities regarding the changes to the existing information technology or implementation of new information technology of the credit institution.

(5) In addition to the documents referred to in paragraphs (1) and (4) of this Article, the Croatian National Bank may request the credit institution to provide, within the time limit referred to in Article 27, paragraph (1) of this Act, additional documentation that it deems necessary to decide whether to grant prior approval, including information prescribed in the law governing the prevention of money laundering and terrorist financing, which is being collected by the persons subject to that law.

(6) When deciding whether to grant prior approval to acquire a qualifying holding and the holding referred to in Article 24 of this Act, the Croatian National Bank shall examine the suitability of the sources of funds which the acquirer intends to use for the acquisition of a qualifying holding in a credit institution.

(7) The Croatian National Bank may, for the purpose of obtaining information necessary to decide on granting prior approval to acquire a qualifying holding, verify the data delivered by the acquirer of a qualifying holding.

(8) The data referred to in paragraph (1), item (1), sub-item (i) and item (2), sub-item (c) of this Article shall be data from the criminal history records and misdemeanour records of the competent authority of the relevant country, not older than 90 days; if such data may not be obtained under the regulations of the country concerned, a statement of the legal or natural person to which the data refers, not older than 30 days.

Decision-making procedure regarding prior approval to acquire a qualifying holding

Article 26

(1) The Croatian National Bank shall acknowledge in writing the receipt of a valid application for prior approval to acquire a qualifying holding or the holding referred to in Article 24 of this Act (hereinafter referred to as 'application') within two working days.

(2) A valid application referred to in paragraph (1) of this Article shall be considered to be:

– an application accompanied by the documentation referred to in Article 25, paragraph (1) of this Act; or

– the documentation referred to in Article 25, paragraphs (1) and (5) of this Act if the Croatian National Bank requests additional documentation.

(3) The Croatian National Bank shall complete the decision-making procedure regarding prior approval to acquire a qualifying holding (hereinafter referred to as 'decision-making procedure') within 60 days of submission of a valid application. The Croatian National Bank shall notify the applicant of the date of expiry of the decision-making period in the written acknowledgement of receipt referred to in paragraph (1) of this Article.

(4) The Croatian National Bank shall deliver the decision to the applicant within two working days following the decision on the application and within the time limit referred to in paragraph (3) of this Article. At the request of the applicant whose application to acquire a qualifying holding has been refused, the Croatian National Bank shall issue a press release thereon and state the reasons for the refusal.

(5) If the Croatian National Bank fails to adopt a decision on an application within the time limit referred to in paragraph (3) of this Article, the application shall be deemed to have been approved.

(6) If the Croatian National Bank receives two or more applications to acquire a qualifying holding, it shall provide equal treatment to all proposed acquirers.

Additional requests in the course of the decision-making procedure regarding prior approval to acquire a qualifying holding

Article 27

(1) In the course of a decision-making procedure, but within 40 days of submission of an application to acquire a qualifying holding, the Croatian National Bank may request in writing additional documentation referred to in Article 25, paragraph (5) of this Act.

(2) An applicant for approval to acquire a qualifying holding shall deliver the requested documentation within the time limit specified by the Croatian National Bank, which may not be longer than 20 days.

(3) By way of derogation from paragraph (2) of this Article, the Croatian National Bank may extend the time limit referred to in paragraph (2) of this Article up to 30 working days if the acquirer of a qualifying holding:

- 1) has its domicile or head office in a third country or is regulated in a third country; or
- 2) is a natural or legal person not subject to supervision and oversight pursuant to the provisions of this Act, the law governing the capital market, the law governing insurance of property and persons and the law governing open-ended investment funds with a public offering or the regulations of a Member State where the acquirer has its domicile or head office transposing Directives 2009/65/EC, 2009/138/EC or 2004/39/EC.

Deciding on prior approval to acquire a qualifying holding

Article 28

(1) When deciding whether to grant prior approval to acquire a qualifying holding, the Croatian National Bank shall appraise the suitability and the financial soundness of the acquirer of a qualifying holding against the following criteria:

- 1) the reputation of the acquirer;
- 2) the reputation, adequacy of knowledge, skills and experience of any member of the management board in accordance with Article 35, paragraph (2) and Article 38 of this Act and of any member of the supervisory board in accordance with Article 35, paragraph (3) and Article 45 of this Act;
- 3) knowledge, skills and experience of any member of senior management who will direct the business of the credit institution, needed to exercise executive functions;
- 4) the financial soundness of the acquirer, in particular in relation to the type of business pursued by the credit institution in which the acquisition is proposed;
- 5) whether the credit institution will be able to comply and continue to comply with the provisions of this Act and Regulation (EU) No 575/2013 and, where applicable, other regulations of the European Union, in particular regulations governing the operation of financial conglomerates and regulations governing the operation of electronic money institutions, including whether the group of which it will become a part has a structure that makes it possible to exercise effective supervision, effectively exchange information among the competent authorities and determine the allocation of responsibilities among the competent authorities; and
- 6) whether there are reasonable grounds to suspect that, in connection with the acquisition, money laundering or terrorist financing, within the meaning of regulations on the prevention of money laundering and terrorist financing, is being or has been committed or attempted, or that the acquisition could increase the risk thereof.

(2) The Croatian National Bank shall neither impose prior conditions relating to the size of the holding the acquirer proposes to acquire nor examine the application for prior approval to acquire a qualifying holding in terms of the economic needs of the market.

(3) The Croatian National Bank may adopt subordinate legislation to further specify the criteria against which it appraises the suitability and the financial soundness of the acquirer of a qualifying holding.

Reasons for refusal of an application to acquire a qualifying holding

Article 29

The Croatian National Bank shall refuse an application for prior approval to acquire a qualifying holding where it assesses that the suitability or the financial soundness of the acquirer of a qualifying holding does not comply with the criteria referred to in Article 28 of this Act.

Legal consequences of acquisition without prior approval

Article 30

(1) Where a person acquires a qualifying holding in a credit institution or the holding referred to in Article 24 of this Act without approval of the Croatian National Bank, the Croatian National Bank shall issue a decision ordering the person to sell the shares acquired without the necessary approval, and to submit evidence on the sale and, if known, data on the buyer.

(2) Where persons acting in concert acquire a qualifying holding or the holding referred to in Article 24 of this Act in a credit institution without approval of the Croatian National Bank, regardless of the percentage of the holding in the credit institution held by each person and regardless of whether that individual holding is a qualifying holding, the Croatian National Bank shall issue a decision ordering the persons to sell the shares acquired without the prior approval so that their joint holding does not exceed the qualifying holding for which approval was granted. These persons shall submit evidence of the sale and, if known, data on the buyer to the Croatian National Bank.

(3) In the process of issuing a decision referred to in paragraphs (1) and (2) of this Article, the Croatian National Bank shall request a statement from each acquirer. Persons acting in concert may propose individual amounts of shares to be sold that need not be proportionate to the total number of their shares.

(4) In the decision referred to in paragraph (2) of this Article, the Croatian National Bank shall order each individual acquirer to sell shares in the amount proportionate to the total number of shares they jointly hold. Exceptionally, if acquirers submit a proposal referred to in paragraph (3) of this Article, the Croatian National Bank may order each individual acquirer to sell shares in the amount which need not be proportionate to the total number of their shares.

(5) The Croatian National Bank shall, by means of the decision referred to in paragraphs (1) and (2) of this Article, set the time limit for the sale which may neither be shorter than three nor longer than nine months.

(6) The decision referred to in paragraphs (1) and (2) of this Article shall be delivered to the persons referred to in paragraphs (1) and (2) of this Article, the credit institution and the Central Depository and Clearing Company.

(7) As of the date of enforceability of the decision referred to in paragraphs (1) and (2) of this Article, the acquirer may not exercise any rights arising from any share ordered to be sold, and the quorum for taking valid decisions and the necessary majority for taking decisions of the general meeting shall be determined in relation to the initial capital reduced by the amount of shares on the basis of which the acquirer cannot exercise any voting rights.

(8) A credit institution shall:

1) ensure that the acquirer referred to in paragraphs (1) and (2) of this Article does not exercise any rights arising from any share ordered to be sold; and

2) from the date of receipt of the decision referred to in paragraphs (1) and (2) of this Article to the expiry of the time limits set for the sale of shares, notify the Croatian National Bank on a monthly basis of any changes of shareholders.

(9) In the dispositive part of the decision referred to in paragraphs (1) and (2) of this Article, the Croatian National Bank shall state:

1) that the dispositive part of the decision shall be publicly disclosed; and

2) that the acquirer may not exercise any rights arising from any share ordered to be sold.

Voting delegate

Article 31

(1) By way of derogation from Article 30, paragraph (7) of this Act, the Croatian National Bank may appoint a voting delegate where, after the reduction of the quorum for taking valid decisions, an acquirer without approval would have the majority necessary for taking decisions of the general meeting.

(2) A voting delegate shall exercise all management rights arising from shares ordered to be sold, while proprietary rights arising from shares shall be exercised by the credit institution.

(3) The Croatian National Bank shall appoint a voting delegate by a decision.

(4) A voting delegate shall vote at the general meeting in accordance with instructions of the Croatian National Bank.

(5) The term of office of a voting delegate shall expire on the date of the sale of shares.

Annulment and revocation of approval to acquire a qualifying holding

Article 32

(1) The Croatian National Bank may annul approval to acquire a qualifying holding where a holder of a qualifying holding obtained approval by providing false or inaccurate data.

(2) The Croatian National Bank may revoke legal approval to acquire a qualifying holding where:

1) a holder of a qualifying holding breaches the obligations referred to in Title XXII of this Act or fails to act in accordance with a decision of the Croatian National Bank or the competent authority of another Member State responsible for supervision on a consolidated basis, ordering him to eliminate deficiencies;

2) circumstances referred to in Article 29 of this Act arise; or

3) the influence exercised by a holder of a qualifying holding operates to the detriment of the prudent and sound management of the credit institution or the holder does not act with the due diligence of a prudent businessperson.

(3) The provisions of Articles 30 and 31 of this Act shall apply to a holder of a qualifying holding whose approval to acquire a qualifying holding has been annulled in accordance with paragraph (1) of this Article or revoked in accordance with paragraph (2) of this Article.

Suspension of the voting rights of holders of qualifying holdings

Article 33

(1) The Croatian National Bank may suspend the voting rights at the general meeting of a holder of a qualifying holding where the influence exercised by that holder is likely to operate to the detriment of the prudent and sound management of the credit institution or it is likely that the holder would not act with the due diligence of a prudent businessperson.

(2) The suspension referred to in paragraph (1) of this Article may not exceed 12 months.

(3) The decision referred to in paragraph (1) of this Article shall be delivered to a holder of a qualifying holding and the credit institution.

(4) As of the date of enforceability of the decision referred to in paragraph (1) of this Article, the holder of a qualifying holding may not exercise any rights arising from any share for which approval of the Croatian National Bank is required, and the quorum for taking valid decisions and the necessary majority for taking decisions of the general meeting shall be determined in relation to the initial capital reduced by the amount of shares on the basis of which the acquirer cannot exercise any voting rights.

5) A credit institution shall ensure that the acquirer referred to in paragraphs (1) and (2) of this Article does not exercise any rights arising from any share for which voting rights have been suspended.

(6) Article 31 of this Act may be applied where, after the reduction of the quorum for taking valid decisions, a holder of a qualifying holding whose voting rights have been suspended would have the majority necessary for taking decisions of the general meeting.

Revocation of approval to acquire a qualifying holding

Article 34

(1) If an acquirer who has been granted prior approval does not acquire shares of a credit institution so as to reach or exceed a 10% holding of the capital or of the voting rights of the credit institution within the time limit referred to in Article 24, paragraph (3) or (4) of this Act, the approval shall be revoked as a whole.

(2) If an acquirer receives approval to acquire a holding of the capital or of the voting rights of the credit institution in the percentage referred to in Article 24, paragraphs (1) and (2) of this Act, and does not acquire the approved amount but does acquire at least 10% of the capital or of the voting rights of the credit institution within the time limit referred to in Article 24, paragraph (3) of this Act, the approval to acquire the larger amount shall be revoked.

(3) If, within the time limit referred to in Article 24, paragraph (6) of this Act, an acquirer of a qualifying holding has reduced the holding to below the amount for which prior approval was granted, the approval shall remain in force in the share exceeding the percentage referred to in Article 24, paragraphs (1) and (2) of this Act which the acquirer holds at the time of expiry of the said time limit.

II.4 MANAGEMENT BOARD AND SUPERVISORY BOARD

Management board and supervisory board

Article 35

(1) A credit institution shall have a management board and a supervisory board.

(2) The members of the management board shall possess adequate collective knowledge, skills and experience required to direct the business of the credit institution independently without undue influence from other persons, and in particular to understand the credit institution's activities and the main risks.

(3) The members of the supervisory board shall possess adequate collective knowledge, skills and experience required to supervise the business of the credit institution independently without undue influence from other persons, and in particular to understand the credit institution's activities and the main risks.

(4) A credit institution shall notify the Croatian National Bank without delay, and at the latest within three working days, of the termination of the term of office of a member of the management or supervisory board and state the reasons for the termination.

Management board

Article 36

(1) The management board of a credit institution shall have at least two members who direct the business of the credit institution and represent it. One of the members of the management board shall be appointed chairperson of the management board.

(2) The management board shall direct the business of a credit institution from the territory of the Republic of Croatia.

(3) Unless provided otherwise in the Articles of Association, members of the management board of a credit institution shall jointly direct the business of the credit institution and jointly represent it.

(4) The management board of a credit institution may authorise one or more procurators to represent the credit institution, conclude contracts and perform legal acts in the name and for the account of the credit institution, which arise from the services for which the credit institution obtained authorisation from the Croatian National Bank, but they may only do so jointly with at least one member of the credit institution's management board.

(5) When entering the name of a procurator in the register of companies, the credit institution's management board shall also enter the limitations on the powers of the procurator.

(6) The conditions that procurators must fulfil, the manner in which procurators are named, the powers of procurators, and any limitations on actions that procurators may take, shall be defined in the Articles of Association of a credit institution.

(7) At least one member of the management board of a credit institution must be fluent in speaking and writing Croatian to be able to perform this function.

Employment status of management board members

Article 37

The members of a credit institution's management board shall direct the business of the credit institution full time and be employed with the credit institution.

Criteria for membership in the management board of a credit institution

Article 38

(1) Members of the credit institution's management board shall at all times meet the following criteria:

1) they are of good repute;

2) they possess adequate knowledge, skills and experience required to direct the business of a credit institution;

3) they are not in a conflict of interest in relation to the credit institution, shareholders, supervisory board members, key function holders or senior management of the credit institution;

4) based on their conduct thus far it may be reasonably concluded that they will perform the duties of members of the credit institution's management board diligently and conscientiously;

5) they meet the criteria for management board members under the provisions of the Companies Act; and

6) they are able to commit sufficient time to perform their functions.

(2) A credit institution's management board shall adopt an appropriate policy for selecting and assessing compliance with the criteria for management board members, subject to the prior approval of the supervisory board. The credit institution shall implement such policy.

(3) The Croatian National Bank shall adopt subordinate legislation to further regulate:

– the criteria for membership in the management board of a credit institution referred to in paragraph (1) of this Article;

– the procedure for granting prior approvals;

– the documentation to be enclosed with the application for prior approval for the chairperson or member of the management board; and

– the content of the policy referred to in paragraph (2) of this Article and the frequency of assessing compliance with the criteria for management board members.

(4) A person who has been convicted by a judgement with final force and effect of any of the criminal offences referred to in Article 25, paragraph (1), item (1), sub-item (i) of this Act shall not be deemed to be of good repute.

Prior approval for management board members

(1) Only a person who has obtained prior approval from the Croatian National Bank to perform the function of a management board member may be appointed to the credit institution's management board.

(2) An application for the prior approval referred to in paragraph (1) of this Article shall be submitted by the credit institution's supervisory board for a term of office not exceeding five years.

(3) Exceptionally, if the competent court appoints a member of the credit institution's management board pursuant to the provisions of the Companies Act, the appointee must meet the criteria referred to in Article 38 of this Act and may not be appointed for a period exceeding six months.

(4) The application referred to in paragraph (2) of this Article shall include evidence that the criteria referred to in Article 38 of this Act have been met, along with the management board's work programme containing projected financial statements for the term of office for which the management board member is to be appointed.

(5) The Croatian National Bank shall obtain data on judgements with final force and effect of criminal offences and misdemeanours committed in the Republic of Croatia for persons for whom the application for prior approval referred to in paragraph (1) of this Article has been submitted from the criminal history records and misdemeanour records or from the European Criminal Records Information System in accordance with the law governing legal consequences of convictions, criminal records and rehabilitation. The Croatian National Bank must provide a reasoned explanation for each request from the records.

(6) When deciding whether to grant prior approval, the Croatian National Bank shall consult the European Banking Authority database of administrative penalties.

(7) The Croatian National Bank shall grant the prior approval referred to in paragraph (1) of this Article for the whole proposed term of office. Exceptionally, if it deems it justified, the Croatian National Bank may grant prior approval for a period shorter than the proposed term of office.

(8) When deciding whether to grant prior approval, the Croatian National Bank may require candidates for management board members to make a presentation detailing how they propose to direct the business of the credit institution and detailing how they propose to manage those activities falling within their personal competence.

(9) The Croatian National Bank shall decide on the prior approval referred to in paragraph (1) of this Article on the basis of:

1) the documentation referred to in paragraph (4) of this Article;

2) the presentation referred to in paragraph (8) of this Article;

3) data on judgements with final force and effect of any the misdemeanours committed while performing the function of a member of a credit institution's management board and the warnings referred to in Article 43 of this Act; and

4) other data and information available to it.

(10) The Croatian National Bank shall refuse an application for prior approval to perform the function of a member of the credit institution's management board if it assesses:

1) that the candidate for a management board member does not meet the criteria referred to in Article 38 of this Act; or

2) that the data and information referred to in paragraph (9) of this Article suggest that the candidate for a management board member is not suitable.

(11) A person who has been granted prior approval to perform the function of a credit institution's management board member shall, before being appointed to the same office with another credit institution, obtain a new prior approval of the Croatian National Bank. The provisions of paragraphs (2) and (4) to (10) of this Article shall apply *mutatis mutandis* to the approval referred to in this paragraph.

(12) Where the supervisory board wishes to reappoint a person who has already obtained approval, he/she shall once again follow the procedures prescribed in this Act.

(13) The supervisory board of a credit institution shall submit an application for the prior approval referred to in paragraph (2) or (11) of this Article at least three months prior to the expiry of the term of office of an individual management board member.

(14) In cases where seats on the management board are vacated or where members of the management board are incapable of performing their functions, the supervisory board of the credit institution may appoint its members as deputy management board members on a one-time basis for a period not longer than three months without the prior approval of the Croatian National Bank.

Prior approval for the chairperson of the management board

Article 40

(1) Only a person who has obtained prior approval from the Croatian National Bank to perform the function of the chairperson of the management board of a credit institution may be appointed chairperson of the management board.

(2) The provisions of Articles 38 and 39 of this Act shall apply *mutatis mutandis* to prior approval to perform the function of the chairperson of the management board.

(3) When deciding whether to grant prior approval, the Croatian National Bank may require a candidate for the chairperson of the management board to make a presentation detailing how he/she proposes to direct the business of the credit institution as a whole.

Duties and responsibilities of management board members

Article 41

(1) The credit institution's management board shall ensure that the credit institution operates in compliance with:

- 1) professional rules and standards;
- 2) this Act, regulations adopted under this Act and, where applicable, other regulations of the European Union governing the operation of credit institutions; and
- 3) other regulations governing the operation of credit institutions.

(2) The management board shall ensure the implementation of supervisory measures imposed by the Croatian National Bank.

(3) The credit institution's management board shall establish and implement effective and sound governance arrangements in accordance with Article 101 of this Act that ensure effective and prudent management of the credit institution.

(4) For the purpose of establishing and implementing effective and sound governance arrangements, the credit institution's management board shall:

- 1) adopt the business policy of the credit institution;
- 2) approve and regularly review the credit institution's strategic objectives and the strategies and policies for risk management, including the risks arising from the macroeconomic environment in which the credit institution operates and the status of its business cycle;
- 3) ensure the integrity of the accounting and financial reporting systems, including financial and operational controls;
- 4) regularly review the process of disclosure and communications;
- 5) provide effective oversight of senior management; and
- 6) establish well-defined, transparent and consistent lines of responsibility, which will ensure clear segregation of duties and responsibilities, and prevent conflicts of interest.

(5) The credit institution's management board shall periodically, and on an annual basis at a minimum, assess the effectiveness of the credit institution's governance arrangements, including the adequacy of procedures and efficiency of control functions, document its conclusions and notify the supervisory board thereof, and take appropriate steps to address any identified deficiencies.

(6) Members of the credit institution's management board shall be jointly liable to the credit institution for damage arising as a consequence of errors of commission or omission in the

performance of their duties, unless they demonstrate that in managing the credit institution they acted with the due diligence of a prudent businessperson.

Notification to the supervisory board

Article 42

(1) The credit institution's management board shall notify the credit institution's supervisory board in writing and without delay if:

- 1) the liquidity or solvency of the credit institution is jeopardised;
- 2) reasons for expiry or revocation of authorisation or for revocation of authorisation to provide individual financial services arise;
- 3) the credit institution's financial position changes to the extent that any of its capital ratios fall below the level laid down in Article 92, paragraph (1) of Regulation (EU) No 575/2013 or Article 228 of this Act;
- 4) the credit institution exceeds the limit on exposures to a single person or a group of connected clients due to the reduction of its own funds or increases its exposures in accordance with Articles 396 and 397 of Regulation (EU) No 575/2013 as a result of circumstances beyond its control; or
- 5) the Croatian National Bank or other supervisory authorities take measures against the credit institution within the scope of supervision or oversight.

(2) Members of the credit institution's management board shall notify the credit institution's supervisory board in writing and without delay of:

- 1) their appointment to or removal from the supervisory body of another legal person; and
- 2) legal arrangements on the basis of which management board members or their immediate family members have, directly or indirectly, acquired shares or holdings in a legal person on the basis of which management board members together with their immediate family members have acquired a qualifying holding in that legal person or on the basis of which their holdings have been reduced below the qualifying holding threshold.

Warning to a management board member

Article 43

(1) The Croatian National Bank shall issue a written warning to the responsible person of the credit institution's management board:

- 1) where the credit institution fails to fully and in a timely manner implement the actions laid down in a memorandum of understanding concluded in accordance with this Act; or

2) where the credit institution fails to fully and in a timely manner implement supervisory measures laid down in a decision of the Croatian National Bank.

(2) A written warning referred to in paragraph (1) of this Article shall be issued to the responsible person regardless of whether the person is still a member or the chairperson of the credit institution's management board at the moment of issue of the written warning.

Annulment and revocation of approval for the chairperson or a member of the management board

Article 44

(1) The Croatian National Bank may annul approval to perform the function of the chairperson or a member of the credit institution's management board where the chairperson or a member of the management board obtained approval by providing false or inaccurate documentation or through false presentation of data relevant for performing the function of the chairperson or a member of the management board.

(2) The Croatian National Bank shall revoke legal approval to perform the function of the chairperson or a member of the credit institution's management board:

1) where the chairperson or a member of the management board breaches the provisions of the Companies Act on the duties of the management board, resulting in the removal of the management board member;

2) where the chairperson or a member of the management board no longer meets the criteria for membership in the management board of a credit institution referred to in Article 38, paragraph (1) of this Act;

3) where the chairperson or a member of the management board receives his or her third warning within a period of five years;

4) where the Croatian National Bank adopts a decision to appoint a special administration;

5) where the designated person is not appointed to office or does not assume the office to which the approval relates within six months of the approval;

6) where the term of office to which the approval relates expires, on the date of expiry of the term of office; or

7) where the contract of employment with the credit institution of the person in office expires, on the date of expiry of the contract.

(3) The period of five years referred to in paragraph (1), item (4) of this Article shall run for each received warning as of the date of its issuance.

(4) The Croatian National Bank may revoke legal approval to perform the function of the chairperson or a member of the credit institution's management board:

1) where the chairperson or a member of the management board fails to ensure the implementation or fails to implement supervisory measures imposed by the Croatian National Bank;

2) where the chairperson or a member of the management board materially breaches the duties of a management board member referred to in Article 41 of this Act;

3) where the chairperson or a member of the management board breaches the duties of a management board member referred to in Article 42 of this Act; or

4) where the credit institution that obtained the permission for an internal model does not comply with terms of the permission.

(5) It shall be deemed that the chairperson or a member of the management board materially breaches the obligations referred to in Article 41 of this Act when his or her actions jeopardise the credit institution's liquidity or solvency.

(6) In carrying out the procedure referred to in paragraphs (1) and (3) of this Article, the Croatian National Bank shall take measures of an appropriate scope and nature to verify whether there are facts and circumstances referred to in paragraphs (1) and (3) of this Article warranting annulment or revocation of approval.

(7) If the Croatian National Bank revokes approval to perform the function of the chairperson or a member of a credit institution's management board, the supervisory board of the credit institution shall without delay adopt a decision to remove from office the chairperson or a member of the management board.

(8) When the procedure for revocation of approval to perform the function of the chairperson or a member of the credit institution's management board has been initiated due to breaches of risk management rules and regulations because of which a procedure for revocation of the credit institution's authorisation has also been initiated, the Croatian National Bank may join these two procedures.

Supervisory board members

Article 45

(1) Members of the credit institution's supervisory board shall at all times meet the following criteria:

1) they are of good repute;

2) they possess adequate knowledge, skills and experience required to perform their functions;

3) they are not in a conflict of interest in relation to the credit institution, shareholders, supervisory board members, key function holders or senior management of the credit institution;

4) they are able to commit sufficient time to perform their functions; and

5) they can be appointed to the supervisory board under the provisions of the Companies Act.

(2) The credit institution's supervisory board shall have at least one independent member.

(3) Employees of a credit institution may not be appointed to the supervisory board of the credit institution.

(4) On proposal of a credit institution's management board, the credit institution's general meeting shall adopt an appropriate policy for selecting and assessing compliance with the criteria for supervisory board members. The credit institution shall implement such policy.

(5) The Croatian National Bank shall adopt subordinate legislation to further regulate:

– the criteria for membership in the supervisory board of a credit institution referred to in paragraph (1) of this Article;

– the procedure for granting prior approvals and the documentation to be enclosed with the application for prior approval for a member of the supervisory board; and;

– the content of the policy referred to in paragraph (4) of this Article and the frequency of assessing compliance with the criteria for supervisory board members.

(6) A person who has been convicted by a judgement with final force and effect of any of the criminal offences referred to in Article 25, paragraph (1), item (1), sub-item (i) of this Act shall not be deemed to be of good repute.

Prior approval for supervisory board members

Article 46

(1) Only a person who has obtained prior approval from the Croatian National Bank to perform the function of a supervisory board member may be selected or appointed to the credit institution's supervisory board.

(2) An application for the prior approval referred to in paragraph (1) of this Article shall be submitted by the credit institution or its founders for a term of office not exceeding four years.

(3) Exceptionally, if the competent court appoints a member of the credit institution's supervisory board pursuant to the provisions of the Companies Act, the appointee must meet the criteria referred to in Article 45 of this Act and may not be appointed for a period exceeding six months.

(4) The application referred to in paragraph (2) of this Article shall include evidence that the criteria referred to in Article 45 of this Act have been met, along with the decision of the credit institution's general meeting on the selection of a supervisory board's member; or, if the Articles of Association provide that a particular shareholder appoints a particular number of supervisory board members, the decision of that shareholder on the appointment of a supervisory board's member.

(5) The Croatian National Bank shall obtain data on judgements with final force and effect of criminal offences and misdemeanours for persons for whom the application for prior approval referred to in paragraph (2) of this Article has been submitted from the criminal history records and misdemeanour records or from the European Criminal Records Information System in accordance with the law governing legal consequences of convictions, criminal records and rehabilitation. The Croatian National Bank must provide a reasoned explanation for each request from the records.

(6) When deciding whether to grant prior approval, the Croatian National Bank shall consult the European Banking Authority database of administrative penalties.

(7) The Croatian National Bank shall grant the prior approval referred to in paragraph (1) of this Article for the whole proposed term of office. Exceptionally, the Croatian National Bank may grant prior approval for a period shorter than the proposed term of office.

(8) The Croatian National Bank shall decide on the prior approval referred to in paragraph (1) of this Article on the basis of:

- 1) the documentation referred to in paragraph (4) of this Article;
- 2) data on the judgement with final force and effect for any misdemeanours committed while performing the function of a member of a credit institution's supervisory board; and
- 3) other data and information available to it.

(9) The Croatian National Bank shall refuse an application for prior approval to perform the function of a member of the credit institution's supervisory board if it assesses:

- 1) that the candidate for a supervisory board member does not meet the criteria referred to in Article 45 of this Act; or
- 2) that the data and information referred to in paragraph (8) of this Article suggest that the candidate for a supervisory board member is not suitable.

(10) A person who has been granted prior approval to perform the function of a credit institution's supervisory board member shall, before being appointed to the same office with another credit institution, obtain a new prior approval of the Croatian National Bank. The provisions of paragraphs (2) and (4) to (9) of this Article shall apply *mutatis mutandis* to the approval referred to in this paragraph.

(11) Where the general meeting or a shareholder who under the Articles of Association has the right to appoint one or more supervisory board members wishes to reappoint a person who has already obtained approval, he/she shall once again follow the procedures prescribed in this Act.

(12) A credit institution shall submit an application for the prior approval referred to in paragraph (2) or (11) of this Article at least three months prior to the expiry of the term of office of an individual supervisory board member.

Annulment and revocation of approval for a member of the supervisory board

Article 47

(1) The Croatian National Bank may annul approval to perform the function of a member of the credit institution's supervisory board where a member of the supervisory board obtained approval by providing false or inaccurate documentation or through false presentation of data relevant for performing the function of a member of the supervisory board.

(2) The Croatian National Bank shall revoke legal approval to perform the function of a member of the credit institution's supervisory board:

1) where a member of the supervisory board no longer meets the criteria for membership in the supervisory board of a credit institution referred to in Article 45 of this Act;

2) where a member of the supervisory board breaches the provisions on duties and responsibilities of supervisory board members referred to in Articles 48 and 49 of this Act;

3) where the Croatian National Bank adopts a decision to appoint a special administration;

4) where the designated person does not assume the office to which the approval relates within six months of the approval; or

5) where the term of office to which the approval relates expires, on the date of expiry of the term of office.

(3) In carrying out the procedure referred to in paragraphs (1) and (2) of this Article, the Croatian National Bank shall take measures of an appropriate scope and nature to verify whether there are facts and circumstances referred to in paragraphs (1) and (2) of this Article warranting annulment or revocation of approval.

(4) If the Croatian National Bank annuls or revokes approval to perform the function of a member of a credit institution's supervisory board, the credit institution's general meeting shall without delay adopt a decision to remove from office the member of the supervisory board.

Competence of the supervisory board

Article 48

In addition to the competence of the supervisory board under the Companies Act, the credit institution's supervisory board shall have the following competences:

- 1) to give approval to the management board for the credit institution's business policy;
- 2) to give approval to the management board for strategic objectives;
- 3) to give approval to the management board for the credit institution's financial plan;
- 4) to give approval to the management board for the strategies and policies for taking up and managing the risks, including those posed by the macroeconomic environment in which the credit institution operates in relation to the status of the business cycle;
- 5) to give approval to the management board for the credit institution's strategies and procedures for assessing the adequacy of internal capital;
- 6) to give approval to the management board for the bylaw on internal audit and the annual internal audit work plan; and
- 7) to adopt decisions concerning other matters laid down in this Act and regulations adopted under this Act.

Duties and responsibilities of supervisory board members

Article 49

(1) In addition to the duties and responsibilities laid down in the Companies Act, members of the supervisory board shall:

- 1) give opinions on the findings of the Croatian National Bank and other supervisory authorities relating to supervisory procedures and examination of the credit institution within 30 days of receipt of a report on examination findings from the Croatian National Bank or an examination report from other supervisory authorities;
- 2) oversee the adequacy of procedures and effectiveness of internal audit activities;
- 3) state their opinions on semi-annual internal audit reports; and
- 4) immediately notify the Croatian National Bank of the following:
 - their appointment to or removal from the management or supervisory bodies of other legal persons;
 - legal arrangements on the basis of which supervisory board members or their immediate family members have, directly or indirectly, acquired shares or holdings in a legal person on the basis of which the supervisory board members together with their immediate family members have

acquired a qualifying holding in that legal person or on the basis of which their holdings have been reduced below the qualifying holding threshold;

5) oversee the implementation and effectiveness of the credit institution's governance arrangements;

6) oversee the implementation of the credit institution's business policy, strategic objectives and the strategies and policies for taking up and managing the risks; and

7) oversee the process of disclosure and communications.

(2) Members of the credit institution's supervisory board shall be jointly liable to the credit institution for damage arising as a consequence of errors of commission or omission in the performance of their duties, unless they demonstrate that in performing their supervisory duties in connection with the management of the credit institution they acted with the due diligence of a prudent businessperson.

Supervisory board committees

Article 50

(1) The supervisory board of a credit institution which is significant in terms of its size, internal organisation and the nature, scope and complexity of its activities shall establish a remuneration committee, a nomination committee and a risk committee.

(2) If a credit institution is not significant in terms of its size, internal organisation and the nature, scope and complexity of its activities and it has not established a remuneration committee or a nomination committee, the supervisory board shall perform the tasks referred to in Article 51 and/or Article 53 of this Act.

(3) The significance of a credit institution shall be determined in accordance with the regulations adopted pursuant to paragraph (6) of this Article and Article 101, paragraph (2), items (1) and (5) of this Act.

(4) Members of a committee referred to in paragraph (1) of this Article shall be appointed from the members of the credit institution's supervisory board. Each committee shall have at least three members, one of which shall be appointed the chairperson.

(5) The obligation referred to in paragraph (1) of this Article shall not apply to credit institutions in the Republic of Croatia that are subsidiaries of an RC parent credit institution which has established an individual committee, provided that the committee performs the tasks for the whole group of credit institutions in the Republic of Croatia.

(6) The Croatian National Bank may adopt subordinate legislation to further regulate the tasks and method of organisation and operation of each committee referred to in this Article, as well as the method and scope of application of the conditions for committee establishment.

Nomination committee

Article 51

The nomination committee shall:

- 1) recommend candidates for management and supervisory board members;
- 2) periodically, and at least annually, assess the structure, size, composition and performance of the management and supervisory board and, if necessary, recommend changes;
- 3) periodically, and at least annually, assess the knowledge, skills and experience of individual members of the management and supervisory board and of the management and supervisory board collectively, and report to those boards accordingly;
- 4) periodically review the policy for selection of management and supervisory board members and for appointment of senior management, make recommendations to the management and supervisory board, and, if necessary, recommend changes;
- 5) to the extent possible and on an ongoing basis, ensure that the management and supervisory board's decision making is not dominated by any one individual or small group of individuals, so as to protect the interests of the institution as a whole; and
- 6) perform other activities laid down by regulations.

Risk committee

Article 52

- (1) Members of the risk committee shall have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the credit institution.
- (2) The risk committee shall in particular:
 - 1) advise the supervisory board on the institution's overall current and future risk appetite and strategy and assist in overseeing the implementation of that strategy by senior management. The management and supervisory board shall retain overall responsibility for risk management and monitoring;
 - 2) review whether prices of liabilities and assets offered to clients take fully into account the institution's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the risk committee shall present a remedy plan to the management board;
 - 3) in order to assist in the establishment and implementation of sound remuneration policies, the risk committee shall, without prejudice to the tasks of the remuneration committee, examine

whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings; and

4) perform other activities laid down by regulations.

(3) A credit institution which is not significant in terms of its size, internal organisation and the nature, scope and complexity of its activities may establish a combined risk and audit committee. Members of the risk and audit committee shall have the knowledge, skills and expertise required for the risk committee.

(4) A credit institution shall ensure that members of the risk committee or the risk and audit committee have adequate access to information on the risk profile of the credit institution and, if necessary and appropriate, to the risk management function and to external expert advice.

(5) The risk committee or the risk and audit committee shall determine the nature, the amount, the format, and the frequency of the information on risk which it is to receive from organisational units/persons or functions within the credit institution.

Remuneration committee

Article 53

(1) The remuneration committee shall be established in such a way as to enable it to exercise competent and independent judgement on remuneration policies and practices and the incentives created for managing risk, capital and liquidity.

(2) The remuneration committee shall:

1) prepare decisions of the supervisory board regarding remuneration, including those which have implications for the risk exposures and risk management of the credit institution concerned; and

2) perform other activities laid down by regulations.

(3) When performing its activities, the remuneration committee shall take into account the long-term interests of shareholders, investors and other stakeholders in the credit institution and the public interest.

Key function holders

Article 54

(1) A credit institution shall identify key functions in the credit institution. 'Key function holders of a credit institution' means persons whose positions give them significant influence over the direction of the credit institution, but who are not members of the management or supervisory board.

(2) A credit institution's management board shall adopt and implement appropriate policies for selecting and assessing the suitability of key function holders of the credit institution.

(3) Where a credit institution assesses that a key function holder is not suitable, it shall take appropriate measures to ensure the suitability of the key function holder.

(4) The Croatian National Bank may adopt subordinate regulation to further regulate the content of the policy referred to in paragraph (2) of this Article, the criteria to be respected by the credit institution when assessing the suitability of key function holders of the credit institution and the frequency of assessing compliance with the criteria for key function holders.

Criteria for membership in the management board of a financial holding company or mixed financial holding company in the Republic of Croatia

Article 55

The provisions of Articles 38 and 45 of this Act shall apply *mutatis mutandis* to members of the management board of a financial holding company or mixed financial holding company which has its head office in the Republic of Croatia.

III PROVISION OF BANKING AND/OR FINANCIAL SERVICES

III.1 PROVISION OF BANKING SERVICES

Provision of banking services

Article 56

Banking services within the territory of the Republic of Croatia may be provided by:

1) credit institutions with head offices in the Republic of Croatia authorised by the Croatian National Bank to provide banking services;

2) credit institutions of the Member States that have established branches within the territory of the Republic of Croatia in accordance with this Act or have been authorised to provide banking services directly within the territory of the Republic of Croatia; and

3) branches of third-country credit institutions authorised by the Croatian National Bank to provide banking services within the territory of the Republic of Croatia.

Prohibition on the taking of deposits or other repayable funds from the public

Article 57

Persons other than those referred to in Article 56 of this Act shall be prohibited from the taking of deposits or other repayable funds from the public in the Republic of Croatia.

Actions of the Croatian National Bank in case of unauthorised taking of deposits or other repayable funds from the public

Article 58

Where, in the course of exercising the tasks within its competence, the Croatian National Bank establishes facts and circumstances indicating that deposits or other repayable funds from the public are being received by persons other than those referred to in Article 56 of this Act, it shall notify a State Attorney's Office or another supervisory authority without delay.

Prohibition on carrying out activities and providing services

Article 59

A credit institution shall not carry out as its main business activity activities other than banking or financial services for which it has been authorised by the competent authority, and ancillary services.

III.2 AUTHORISATIONS TO PROVIDE BANKING AND/OR FINANCIAL SERVICES

Authorisation

Article 60

(1) A credit institution shall receive authorisation from the Croatian National Bank to operate as a bank, a savings bank or a housing savings bank (hereinafter referred to as 'authorisation').

(2) Authorisation shall include authorisation to provide banking services.

(3) Authorisation may also include authorisation to provide core and additional financial services (hereinafter referred to as 'authorisation to provide financial services').

(4) After a credit institution obtains authorisation, it may be entered in the register of companies.

(5) By way of derogation from paragraphs (2) and (4) of this Article, a credit institution intending to provide an additional financial service referred to in Article 8, paragraph (2), item (2) of this Act for which authorisation is not required in accordance with a special law, may provide that service without obtaining authorisation to provide that additional financial service and may enter that service in the register of companies.

Subsequent authorisations

Article 61

All subsequent authorisations obtained by a credit institution pursuant to Article 60, paragraphs (2) and (3) of this Article shall be considered integral parts of the authorisation referred to in paragraph (1) of that Article.

Authorisation to provide financial services

Article 62

(1) A credit institution which has its head office in the Republic of Croatia, or a branch of a third-country credit institution, shall obtain authorisation from the Croatian National Bank to provide financial services before it may enter the financial services it intends to provide in the register of companies.

(2) The Croatian National Bank shall decide on the authorisation referred to in paragraph (1) of this Article at the same time as it decides on the authorisation of the credit institution or the authorisation of a branch of a third-country credit institution, unless the application for the authorisation referred to in this Article is submitted after the credit institution or the branch of a third-country credit institution referred to in paragraph (1) of this Article has been granted authorisation.

Other authorisations

Article 63

(1) A credit institution that merges by acquisition another credit institution having its head office within or outside the Republic of Croatia or other legal person having its head office within or outside the Republic of Croatia shall obtain authorisation from the Croatian National Bank (hereinafter referred to as 'authorisation for merger by acquisition') prior to the entry of the decision on merger by acquisition in the register of companies.

(2) A credit institution to be merged by acquisition to another credit institution having its head office within or outside the Republic of Croatia shall obtain authorisation for merger by acquisition from the Croatian National Bank.

(3) The merger by acquisition referred to in paragraphs (1) and (2) of this Article shall include the transfer of all assets and liabilities.

(4) Credit institutions may merge by formation of a new credit institution with credit institutions having their head office within or outside the Republic of Croatia or with other legal persons having their head office within or outside the Republic of Croatia provided they have obtained authorisation from the competent authorities of all participants in the merger (hereinafter referred to as 'authorisation for merger by formation of a new credit institution') and that the merger results in the formation of a new credit institution. Prior to the entry in the register of companies, the new credit institution having its head office in the Republic of Croatia needs to be authorised by the Croatian National Bank. On the date of the entry of the new credit institution in the register of companies or other relevant register, credit institutions participating in the merger by formation of

a new credit institution shall cease to exist and the authorisations they obtained from the competent authorities shall expire.

(5) A credit institution may be divided by transferring all its assets to two or more new credit institutions formed for that purpose, having their head office within or outside the Republic of Croatia. It shall obtain authorisation for division from the Croatian National Bank (hereinafter referred to as 'authorisation for division by formation of new credit institutions') prior to the entry of the new credit institutions in the register of companies or other relevant register. On the date of the entry of the new credit institutions in the register of companies or other relevant register, the credit institution being divided shall cease to exist and the authorisations it obtained from the Croatian National Bank shall expire.

(6) A credit institution that is divided by transferring all its assets to two or more existing credit institutions having their head office within or outside the Republic of Croatia shall obtain authorisation for division from the Croatian National Bank (hereinafter referred to as 'authorisation for division by acquisition') prior to the entry of the decision on division in the register of companies.

(7) A credit institution may split off one or more parts of its assets by transferring them to one or more new credit institutions formed for that purpose, having their head office within or outside the Republic of Croatia. It shall obtain authorisation for split-off from the Croatian National Bank (hereinafter referred to as 'authorisation for disposal by formation of one or more credit institutions') prior to the entry of the decision on split-off in the register of companies.

(8) A credit institution that splits off one or more parts of its assets by transferring them to one or more existing credit institutions having their head office within or outside the Republic of Croatia shall obtain authorisation for split-off from the Croatian National Bank (hereinafter referred to as 'authorisation for disposal by acquisition') prior to the entry of the decision on split-off in the register of companies.

(9) A credit institution that intends to transfer a portion of its assets and the same proportion of its liabilities to another credit institution having its head office within or outside the Republic of Croatia shall obtain authorisation from the Croatian National Bank before concluding such a contract.

(10) The Croatian National Bank may adopt subordinate legislation to further regulate the conditions for and the manner of obtaining the authorisations referred to in this Article.

Refusing applications for other authorisations

Article 64

The Croatian National Bank shall refuse any of the applications for authorisation referred to in Article 63, paragraphs (1) and (2) and paragraphs (4) to (9) of this Act where this could lead to the disruption of the safety and soundness of any single credit institution or of the stability of the financial system as a whole.

Application for authorisation

Article 65

(1) An application for authorisation shall be accompanied by:

- 1) the Articles of Association in the form of a certified copy of a notarial deed;
- 2) a business plan for the first three years of business, including balance sheets, profit and loss accounts, the types of business planned, the appropriate organisational, technical and personnel structure of the credit institution, accounting policies and the organisation of the internal audit function;
- 3) an application to acquire a qualifying holding and documentation referred to in Article 25 of this Act;
- 4) where no shareholder of the credit institution is an acquirer of a qualifying holding, a list of the 20 largest shareholders;
- 5) the application referred to in Article 39, paragraph (2) and Article 40 of this Act with a proposal for the chairperson and members of the management board and documentation referred to in Article 39, paragraph (4) of this Act;
- 6) the application referred to in Article 46, paragraph (2) of this Act with a proposal for supervisory board members and documentation referred to in Article 46, paragraph (4) of this Act;
- 7) evidence on the initial capital for the credit institution to be established;
- 8) an opinion or approval of the competent authority of a Member State or the competent authority of a third country on the credit institution of a Member State or a third country intending to establish a credit institution in the Republic of Croatia; and
- 9) a relevant legal act of the competent authority authorising the provision of specific financial services where so required by the regulations governing the provision of specific financial services set out in the credit institution's business plan.

(2) Where a credit institution intends to provide financial services in addition to banking services, it shall specify the types of financial services it intends to provide in the application for authorisation.

(3) Where a credit institution that has already obtained authorisation wishes to provide financial services additional to those for which it has been authorised, it shall enclose the documentation referred to in paragraph (1), items (2) and (9) of this Article with an application for authorisation to provide these financial services as well as an explanation of the effect of new services on the credit institution's balance sheet and profit and loss account, organisational and personnel structure, and accounting and other policies.

(4) A credit institution intending to provide additional financial services referred to in Article 8, paragraph (2), items (2) and (3) of this Act, shall deliver to the Croatian National Bank documentation prescribed in a special law.

(5) The Croatian National Bank may also request other documentation evidencing compliance with the personnel, technical and organisational requirements for the provision of services to which the application for authorisation relates.

(6) Prior to granting the authorisation referred to in paragraph (1) of this Article, the Croatian National Bank shall consult and exchange information with the competent authorities of the Member States pursuant to Article 24, paragraph (7) of this Act, in particularly regarding the suitability of an acquirer of a qualifying holding, the reputation, appropriateness of skills and experience of management board members of undertakings within the same group.

Linked application decisions

Article 66

The Croatian National Bank may simultaneously decide on the following applications when issuing authorisations:

- 1) the application to acquire a qualifying holding;
- 2) the application for prior approval for the chairperson or a member of the management board and members of the supervisory board; and
- 3) the application to provide financial services referred to in Article 8 of this Act, if the credit institution submitted an application for authorisation to provide such services at the same time as submitting an application for authorisation.

Refusing applications for authorisation

Article 67

(1) The Croatian National Bank shall refuse an application for authorisation:

- 1) if any of the reasons referred to in Article 29 of this Act arise;
- 2) if the exercise of supervision of the credit institution's operation pursuant to the provisions of this Act may be made difficult or prevented by close links between the credit institution and other legal or natural persons;
- 3) if the exercise of supervision of the credit institution's operation pursuant to the provisions of this Act may be made difficult or prevented by close links between the credit institution and other legal or natural persons with head offices or domicile or normal place of residence in a third country

whose regulations prevent the exercise of supervision or where there are other reasons preventing the exercise of supervision;

4) if the persons recommended for the chairperson or members of the management board do not meet the criteria referred to in Article 38 or Article 40 of this Act or if the persons recommended for supervisory board members do not meet the criteria referred to in Article 45 of this Act;

5) if it is evident that the credit institution is not organised in accordance with this Act or if the conditions for the operation of credit institutions laid down in this Act, regulations adopted under this Act or the regulations of the European Union governing the operation of credit institutions have not been met;

6) if it is evident that the credit institution would neither have physical presence in the Republic of Croatia nor would its business be directed from the territory of the Republic of Croatia (shell bank);

7) if the provisions of the credit institution's Articles of Association are contrary to this Act, regulations adopted under this Act or the regulations of the European Union governing the operation of credit institutions;

8) if it is evident from the documentation and from other available information that the credit institution fails to meet the personnel, organisational and technical requirements for the provision of banking and/or financial services in the manner and scope envisaged in its business plan; or

9) if it is evident from the application and the accompanying documentation that the credit institution fails to meet other requirements for the provision of the banking and/or financial services covered by the application for authorisation.

(2) When deciding on an application for authorisation, the Croatian National Bank shall not examine the application in terms of economic needs of the market.

Expiry of authorisation

Article 68

(1) Authorisation shall expire on the date:

1) of the opening of the voluntary winding-up of a credit institution;

2) of the adoption of a decision to open bankruptcy proceedings against a credit institution;

3) of the entry of a new credit institution in the register of companies, in case of a merger of credit institutions; or

4) of the removal of a credit institution from the register of companies, in cases referred to in Article 63, paragraphs (2), (4) and (5) of this Act.

(2) Authorisation to provide financial services and all other authorisations granted to a credit institution shall expire at the same time as the credit institution's authorisation.

Reasons for annulment and revocation of authorisation

Article 69

(1) The Croatian National Bank shall annul a decision on authorisation where a credit institution obtained the authorisation on the basis of false or inaccurate documentation or false presentation of data relevant to its operation.

(2) The Croatian National Bank shall revoke a decision on authorisation:

1) where a credit institution does not commence its activities within 12 months of the issue of authorisation;

2) where a credit institution submits a written notification to the Croatian National Bank stating that it no longer intends to provide the banking and/or financial services for which authorisation has been granted;

3) where a credit institution ceases to provide banking services for more than six months;

4) where a credit institution no longer meets the conditions under which authorisation was granted;
or

5) where reasons arise for a decision to initiate the compulsory winding-up of a credit institution.

(3) The Croatian National Bank may revoke a decision on authorisation:

1) where a credit institution no longer meets the prudential requirements set out in Parts Three, Four or Six of Regulation (EU) No 575/2013 or the own funds requirements imposed by a decision of the Croatian National Bank under Articles 224 and 228 of this Act or the specific liquidity requirements under Articles 224 and 225 of this Act;

2) where a credit institution can no longer be relied on to fulfil its obligations towards its creditors, and, in particular, no longer provides security for the assets entrusted to it by its depositors;

3) where a credit institution fails to meet internal capital requirements and other operating conditions in accordance with regulations on risk management;

4) where a credit institution repeatedly fails to meet reporting requirements of the Croatian National Bank in a timely and accurate manner within a three year period;

5) where a credit institution prevents supervision of its operation in any manner whatsoever;

- 6) where a credit institution fails to implement supervisory measures imposed by a decision of the Croatian National Bank;
- 7) where there are reasons for annulment or revocation of approval to acquire a qualifying holding referred to in Article 32 of this Act;
- 8) where a credit institution fails to meet the requirements relating to deposit insurance laid down in the law governing deposit insurance;
- 9) where a credit institution fails to meet the technical, organisational, personnel and other requirements for the provision of banking services;
- 10) where a credit institution fails to act in accordance with Article 151, paragraph (2), item (5) and paragraph (3), item (2) of this Act;
- 11) where a credit institution fails to establish governance arrangements as provided under Article 101 of this Act and subordinate legislation adopted under this Act;
- 12) where a credit institution fails to report information or provides incomplete or inaccurate information on compliance with the obligation to meet own funds requirements set out in Article 92 of Regulation (EU) No 575/2013 to the Croatian National Bank in breach of Article 99, paragraph (1) of that Regulation;
- 13) where a credit institution fails to report information or provides incomplete or inaccurate information to the Croatian National Bank in relation to the data referred to in Article 101 of Regulation (EU) No 575/2013;
- 14) where a credit institution fails to report information or provides incomplete or inaccurate information about large exposures to the Croatian National Bank in breach of Article 394, paragraph (1) of Regulation (EU) No 575/2013;
- 15) where a credit institution fails to report information or provides incomplete or inaccurate information on liquidity to the Croatian National Bank in breach of Article 415, paragraphs (1) and (2) of Regulation (EU) No 575/2013;
- 16) where a credit institution fails to report information or provides incomplete or inaccurate information on the leverage ratio to the Croatian National Bank in breach of Article 430, paragraph (1) of Regulation (EU) No 575/2013;
- 17) where a credit institution repeatedly or persistently fails to meet liquid assets requirements in breach of Article 412 of Regulation (EU) No 575/2013;
- 18) where a credit institution breaches the provisions on exposure limits set out in Article 395 of Regulation (EU) No 575/2013;

19) where a credit institution is exposed to the credit risk of a securitisation position without satisfying the conditions set out in Article 405 of Regulation (EU) No 575/2013;

20) where a credit institution fails to disclose information or provides incomplete or inaccurate information in breach of Article 431, paragraphs (1), (2) and (3) or Article 451, paragraph (1) of Regulation (EU) No 575/2013;

21) where a credit institution makes payments to holders of instruments included in the calculation of own funds of the institution in breach of Article 140 of this Act or in cases where Articles 28, 51 or 63 of Regulation (EU) No 575/2013 prohibit such payments;

22) where a credit institution is found liable by a judgement with final force and effect for a material breach of the provisions governing the prevention of money laundering and terrorist financing; or

23) where a credit institution allows one or more persons who do not meet the criteria referred to in Article 38 of this Act to become or remain a member of the management board or allows one or more persons who do not meet the criteria referred to in Article 45 of this Act to become or remain a member of the supervisory board.

(4) In the dispositive part of the decision referred to in paragraphs (1), (2) and (3) of this Article, the Croatian National Bank shall state that the dispositive part of the decision shall be publicly disclosed.

Unavailability of deposits

Article 70

(1) The Croatian National Bank shall issue a decision on the unavailability of deposits if it determines that the credit institution concerned appears to be unable for the time being, for reasons which are directly related to its financial circumstances, to repay a deposit that is due and payable as defined in the law governing deposit insurance, and to have no current prospect of being able to do so.

(2) The Croatian National Bank shall issue a decision referred to in paragraph (1) of this Article as soon as practicable and at the latest within five working days of establishing that the credit institution failed to repay deposits that are due and payable as defined in the law governing deposit insurance.

(3) In cases where pursuant to Article 68, paragraph (1), item (1) of this Act a credit institution's authorisation expired or where the decision on authorisation has been annulled or revoked, the Croatian National Bank may adopt a decision on the unavailability of deposits if it establishes the existence of reasons referred to in paragraph (1) of this Article.

(4) The Croatian National Bank shall without delay deliver the decision referred to in paragraph (1) of this Article to the institution responsible for deposit insurance and to other competent and supervisory authorities and publish it in the Official Gazette.

Decision to annul or revoke authorisation

Article 71

- (1) The Croatian National Bank shall deliver a decision to annul or revoke authorisation to the credit institution concerned within three days of the adoption of the decision.
- (2) The Croatian National Bank shall publish a decision to annul or revoke authorisation in the Official Gazette, deliver it to the competent commercial court and the institution responsible for deposit insurance, and issue a press release thereon.

Refusing applications for authorisation to provide individual financial services

Article 72

The Croatian National Bank may refuse an application for authorisation to provide financial services:

- 1) where it is evident from the documentation and other available information that the credit institution fails to meet the technical, personnel, organisational and other requirements for the provision of individual types of core and additional financial services;
- 2) where the Croatian National Bank has imposed supervisory measures on the credit institution and the introduction of a new service could adversely affect the implementation of these supervisory measures; or
- 3) where the credit institution fails to meet specific requirements for the provision of financial services laid down in any other regulation governing the provision of financial services envisaged in the credit institution's business plan.

Revocation of authorisation to provide individual financial services

Article 73

- (1) Where a credit institution ceases to meet the technical, personnel, organisational and other requirements for the provision of individual types of financial services, the Croatian National Bank may adopt a decision to revoke authorisation to provide those financial services for which the credit institution no longer meets the requirements.
- (2) The Croatian National Bank shall adopt a decision to revoke authorisation to provide all or individual financial services if the credit institution no longer meets the requirements laid down in other regulations governing the provision of financial services.
- (3) The provisions of Article 71 of this Act shall apply *mutatis mutandis* to revocation of authorisation to provide financial services.

**III.3 PROVISION OF MUTUALLY RECOGNISED SERVICES OUTSIDE THE
TERRITORY OF THE REPUBLIC OF CROATIA BY CREDIT INSTITUTIONS WITH
HEAD OFFICES IN THE REPUBLIC OF CROATIA**

III.3.1 Provision of services within the territory of another Member State

Provision of services in another Member State

Article 74

(1) A credit institution having its head office in the Republic of Croatia or a financial institution having its head office in the Republic of Croatia that meets the conditions referred to in Article 84, paragraph (1) of this Act may, under the conditions laid down in this Act, provide mutually recognised services for which it is authorised in the Republic of Croatia through a branch or directly within the territory of another Member State.

(2) A credit institution having its head office in the Republic of Croatia may, under the conditions laid down in this Act, provide additional financial services within the territory of another Member State through a branch or directly where so permitted by the regulations of the host Member State and where authorised for the provision of such services by the Croatian National Bank.

Provision of services by a credit institution in another Member State through a branch

Article 75

(1) A credit institution having its head office in the Republic of Croatia that intends to establish a branch within the territory of another Member State shall submit an application for authorisation to the Croatian National Bank, stating the Member State where it intends to open the branch and shall enclose with the application:

1) a business plan for the first three years of business, setting out the types and the scale of services it intends to provide through the branch and the organisational structure of the branch;

2) the address in the host Member State from which the Croatian National Bank may obtain documentation on the branch; and

3) the names and addresses of natural persons who will be responsible for directing the business of the branch.

(2) The Croatian National Bank may request additional documentation within one month of receipt of the application referred to in paragraph (1) of this Article. If the Croatian National Bank requests additional documentation, the date of receipt of a valid application shall be deemed the delivery date.

(3) The Croatian National Bank shall decide on the application of the credit institution for the establishment of a branch (hereinafter referred to as 'authorisation to establish a branch in a

Member State') at the latest within 60 days of the delivery date of a valid application and shall notify the credit institution accordingly.

(4) The Croatian National Bank shall notify the competent authority of the host Member State without delay of the authorisation and the enclosed data referred to in paragraph (1) of this Article and of the amount and composition of own funds and the sum of the own funds requirements of the credit institution calculated in accordance with Article 92 of Regulation (EU) No 575/2013 and shall notify the credit institution accordingly.

(5) The Croatian National Bank shall refuse the credit institution's application if, on the basis of all available information, it assesses that:

1) the credit institution does not have the appropriate organisational, technical and personnel structure or the adequate financial position to provide the planned scale of services in the Member State in question through a branch;

2) the application to establish a branch represents an attempt to evade stricter rules and regulations in force in the Republic of Croatia; or

3) this could jeopardise the safety and stability of the credit institution's operation.

(6) The Croatian National Bank may further regulate the authorisation procedure referred to in paragraph (3) of this Article.

Provision of services by financial institutions in another Member State through a branch

Article 76

(1) If a financial institution whose head office is in the Republic of Croatia and which is a subsidiary of one or more credit institutions which have their head office in the Republic of Croatia meets the conditions referred to in Article 84, paragraph (1) of this Act and intends to provide mutually recognised financial services within the territory of another Member State through a branch, the parent credit institution of the said financial institution shall notify the Croatian National Bank thereof.

(2) The parent credit institution shall enclose with the notification referred to in paragraph (1) of this Article:

1) the documentation referred to in Article 75, paragraph (1) of this Act;

2) the documentation verifying compliance with the conditions referred to in Article 84, paragraph (1) of this Act;

3) data on the amount and composition of own funds or the amount of other prescribed form of capital of the financial institution and the total risk exposure amounts calculated in accordance with

Article 92, paragraphs (3) and (4) of Regulation (EU) No 575/2013 of the credit institution which is its parent undertaking; and

4) authorisation by the supervisory authority, where required, to establish a branch of the financial institution in another Member State.

(3) The Croatian National Bank may request additional documentation within one month of receipt of the notification referred to in paragraph (1) of this Article. If the Croatian National Bank requests additional documentation, the date of receipt of a valid application shall be deemed the delivery date.

(4) The Croatian National Bank shall check, within 60 days of the delivery date of a valid application, whether the financial institution meets the conditions set out in Article 84, paragraph (1) of this Act and, if it assesses that the conditions set out in Article 84, paragraph (1) of this Act have been met, it shall supply the financial institution with a certificate of compliance through the parent credit institution.

(5) The Croatian National Bank shall without delay deliver the notification referred to in paragraph (1) of this Article and a certificate of compliance to the competent authority of the host Member State and enclose data on the amount and composition of own funds or other prescribed form of capital of the financial institution, the sum of consolidated own funds and consolidated own funds requirements of the group of credit institutions in the Republic of Croatia (hereinafter referred to as 'group of credit institutions in the RC') of which that financial institution is a member as well as data on the total risk exposure amounts of the group calculated in accordance with Article 92, paragraphs (3) and (4) of Regulation (EU) No 575/2013.

(6) The Croatian National Bank shall not deliver the notification referred to in paragraphs (4) and (5) of this Article and shall deliver a decision to refuse the delivery of the notification if, on the basis of all available information, it assesses that:

1) the financial institution does not have the appropriate organisational, technical and personnel structure or the adequate financial position to provide the planned scale of services in the Member State in question through a branch; or

2) this could jeopardise the safety and stability of the credit or financial institution's operation.

(7) By way of derogation from paragraph (1) of this Article, financial institutions that have been authorised by a competent authority in the Republic of Croatia shall, for the purpose of providing services in another Member State, be subject to the laws governing their operation.

(8) If the Croatian National Bank establishes that a financial institution no longer meets any of the conditions referred to in Article 84, paragraph (1) of this Act, it shall notify the competent authority of the home Member State without delay.

(9) The provisions of this Title shall apply *mutatis mutandis* to subsidiaries of financial institutions meeting the conditions referred to in paragraph (1) of this Article.

(10) The provisions of Articles 192 to 197 and Article 214, paragraph (1), item (1) of this Act shall apply *mutatis mutandis* to financial institutions referred to in paragraph (1) of this Article.

Commencement of the provision of services through a branch

Article 77

(1) A credit institution that has been authorised by the Croatian National Bank to establish a branch in another Member State may begin to provide services through a branch within the territory of another Member State:

1) from the date it receives the notification from the competent authority of the host Member State of the conditions which, in the interests of the general good, must be met when providing services in that Member State;

2) without receipt of such notification, following the expiry of a period of two months of receipt by the competent authority of the host Member State of the notification and documentation referred to in Article 75, paragraph (1) of this Act.

(2) Where a credit institution that has been authorised by the Croatian National Bank to establish a branch in another Member State intends to establish any further branches in the same Member State, it shall notify the Croatian National Bank. The provisions of Article 75 of this Act shall not apply in such cases.

(3) The provisions of this Article shall apply *mutatis mutandis* to the financial institution referred to in Article 76 of this Act.

Changes in branch data

Article 78

A credit institution that has been authorised to establish a branch in another Member State or a parent credit institution of the financial institution referred to in Article 76 of this Act that intends to subsequently change any of the data referred to in Article 76, paragraph (2) of this Act, shall, at least one month before effecting the change, notify the Croatian National Bank in order to enable the Croatian National Bank to take actions in accordance with Articles 75 and 76 of this Act, and the competent authority of the host Member State.

Annulment or revocation of authorisation to establish a branch in another Member State

Article 79

(1) The Croatian National Bank shall annul authorisation to establish a branch in another Member State where a credit institution obtained authorisation to establish a branch on the basis of false or inaccurate data, which were relevant for obtaining authorisation to establish a branch.

(2) The Croatian National Bank shall revoke authorisation to establish a branch in another Member State:

- 1) where the branch fails to commence its operation within six months of obtaining authorisation;
- 2) where the competent authority of the host Member State has prohibited the credit institution from providing services within its territory; or
- 3) where the branch has not performed operations covered by the authorisation for more than six months.

(3) The Croatian National Bank may revoke authorisation to establish a branch in another Member State:

- 1) where it is established that the credit institution no longer meets the organisational, technical and personnel requirements relating to the services it provides;
- 2) where the credit institution fails to meet the requirements relating to insurance of deposits with the branch;
- 3) where the credit institution does not comply with the regulations of the host Member State in the operation of the branch; or
- 4) where the geographical distribution of the provision of services indicates that the credit institution uses the branch to evade stricter rules and regulations in force in the Republic of Croatia.

(4) A credit institution having its head office in the Republic of Croatia that provides services in another Member State through a branch may apply for removal of a branch from the register of companies or other relevant register kept in the host country only upon settlement of all obligations arising from the operation of the branch.

Direct provision of services in another Member State

Article 80

(1) A credit institution having its head office in the Republic of Croatia that intends to directly provide mutually recognised services within the territory of another Member State shall notify the Croatian National Bank in advance and state the Member State in which it intends to provide services directly.

(2) A credit institution having its head office in the Republic of Croatia that is a parent undertaking of a financial institution meeting the requirements referred to in Article 84, paragraph (1) of this Act and that intends to directly provide mutually recognised services within the territory of another Member State shall notify the Croatian National Bank in advance and state the Member State in which the financial institution intends to provide services directly.

(3) Along with the notification referred to in paragraphs (1) and (2) of this Article, the credit institution shall enclose a list of services it intends to provide in the Member State and a business plan for the first three years of business.

(4) Within one month of receipt of the notification referred to in paragraphs (1) and (2) of this Article, the Croatian National Bank shall deliver that notification to the competent authority of the host Member State and notify the credit institution thereof.

(5) A credit or financial institution may begin to directly provide the mutually recognised services listed in the notification referred to in paragraphs (1) and (2) of this Article from the date of receipt of a notification from the Croatian National Bank that the notification referred to in the preceding paragraph has been delivered to the competent authority of the Member State.

III.3.2 Provision of banking and/or financial services in a third country

Provision of services in a third country

Article 81

(1) A credit institution having its head office in the Republic of Croatia may provide banking and/or financial services in a third country only through a branch.

(2) Before establishing a branch in a third country, a credit institution shall obtain authorisation from the Croatian National Bank (hereinafter referred to as 'authorisation to establish a branch in a third country').

(3) A credit institution having its head office in the Republic of Croatia that intends to establish a branch in a third country shall submit an application for authorisation to the Croatian National Bank, stating the country where it intends to open the branch, and shall enclose with the application:

1) a business plan for the first three years of business, setting out the types and the scale of services it intends to provide through the branch and the organisational structure of the branch;

2) the address in the host country from which the Croatian National Bank may obtain documentation on the branch; and

3) the names and addresses of natural persons who will be responsible for directing the business of the branch.

(4) The Croatian National Bank may request additional documentation within one month of receipt of the application referred to in paragraph (3) of this Article. If the Croatian National Bank requests additional documentation, the date of receipt of a valid application shall be deemed the delivery date.

(5) The Croatian National Bank shall decide on the application of the credit institution for the establishment of a branch within 60 days of the delivery date of a valid application.

(6) The Croatian National Bank shall refuse the application if, on the basis of the information available to it, it assesses that:

1) the credit institution intending to establish a branch does not have the appropriate organisational, technical and personnel structure or the adequate financial position to provide the planned scale of services in a third country;

2) in view of the regulations of that country or practices relating to their implementation, it is likely that the exercise of supervision in accordance with the provisions of this Act will be prevented or made difficult; or

3) the credit institution thus attempts to evade stricter rules in force in the Republic of Croatia.

(7) Where a credit institution that has been authorised by the Croatian National Bank to establish a branch in a third country intends to establish any further branches in the same country, it shall notify the Croatian National Bank. The provisions of paragraphs (1) to (6) of this Article shall not apply in such cases.

(8) Where a credit institution that has been authorised to establish a branch in a third country intends to subsequently change any of the data referred to in paragraph (3) of this Article, it shall notify the Croatian National Bank thereof at least one month before effecting the change.

(9) The Croatian National Bank shall annul authorisation to establish a branch in a third country granted to a credit institution having its head office in the Republic of Croatia where the credit institution obtained authorisation to establish a branch in a third country on the basis of false or inaccurate data, which were relevant for obtaining authorisation to establish a branch.

(10) The Croatian National Bank shall revoke authorisation to establish a branch in a third country granted to a credit institution having its head office in the Republic of Croatia:

1) where the competent authority of the host country has prohibited the credit institution from providing services within its territory;

2) where the branch fails to commence its operation within six months of obtaining authorisation;

3) where the branch has not performed operations covered by the authorisation for more than six months; or

4) where the branch ceases to comply with the requirements pursuant to which it was granted authorisation.

(11) The Croatian National Bank may revoke authorisation to establish a branch in a third country granted to a credit institution having its head office in the Republic of Croatia:

1) where it is established that the credit institution no longer meets the organisational, technical and personnel requirements relating to the services it provides;

2) where the credit institution fails to meet the requirements relating to insurance of deposits with the branch;

3) where the credit institution does not comply with the regulations of the third country in the operation of the branch; or

4) where the geographical distribution of the provision of services indicates that the credit institution uses the branch to evade stricter rules and regulations in force in the Republic of Croatia.

(12) A credit institution having its head office in the Republic of Croatia that provides services in a third country may apply for removal of a branch from the register of companies or other relevant register kept in that country only upon settlement of all obligations arising from the operation of the branch.

III.3.3 Establishment of representative offices outside the Republic of Croatia

Establishment of representative offices outside the Republic of Croatia

Article 82

A credit institution having its head office in the Republic of Croatia that intends to establish a representative office shall notify the Croatian National Bank thereof and state the country in which it intends to establish a representative office.

III.4 PROVISION OF MUTUALLY RECOGNISED SERVICES BY CREDIT INSTITUTIONS WITH HEAD OFFICES OUTSIDE THE REPUBLIC OF CROATIA WITHIN THE TERRITORY OF THE REPUBLIC OF CROATIA

III.4.1 The right of establishment and the freedom to provide mutually recognised services by credit institutions of the Member States

Provision of services by credit institutions of other Member States

Article 83

(1) A credit institution of another Member State may establish a branch in the Republic of Croatia and provide mutually recognised services that it is authorised to provide in the home Member State through that branch under the conditions laid down in this Act.

(2) A credit institution of a Member State may, on a temporary basis, directly provide mutually recognised services that it is authorised to provide in the home Member State within the territory of the Republic of Croatia under the conditions laid down in this Act.

Provision of mutually recognised financial services by financial institutions of the Member States

Article 84

(1) A financial institution of another Member State may provide those mutually recognised services referred to in Article 9, paragraph (1), item (2) of this Act that it is authorised to provide in the home Member State through a branch or, on a temporary basis, directly within the territory of the Republic of Croatia, provided that the following conditions are met:

1) its parent undertaking is one or more credit institutions with head offices in a Member State that have been authorised by the competent authority;

2) it provides recognised financial services in the home Member State pursuant to its Articles of Association or another legal act;

3) it actually provides financial services in that Member State;

4) the parent credit institution or institutions hold 90% or more of the voting rights in the financial institution;

5) its parent credit institutions have satisfied the competent authorities of the home Member State regarding the prudent management of the institution and, with the consent of the relevant supervisory authorities, jointly guarantee the commitments entered into by the financial institution; and

6) the financial institution is effectively included in the consolidated supervision of the parent credit institution, or of each of the parent credit institutions, in accordance with Title XXII of this Act and Part One, Title II, Chapter 2 of Regulation (EU) No 575/2013, in particular for the purposes of calculating the own funds requirements set out in Article 92 of Regulation (EU) No 575/2013, for the control of large exposures provided for in Part Four of Regulation (EU) No 575/2013 and for the purposes of the limitation of qualifying holdings outside the financial sector provided for in Articles 89 and 90 of Regulation (EU) No 575/2013.

(2) The provisions of this Title shall apply *mutatis mutandis* to subsidiaries of financial institutions meeting the conditions referred to in paragraph (1) of this Article.

(3) The provisions of Article 10, Articles 192 to 197 and Article 214, paragraph (1), item (1) of this Act shall apply *mutatis mutandis* to financial institutions referred to in paragraph (1) of this Article.

Providing services through a branch in the Republic of Croatia

Article 85

(1) A credit institution of another Member State or the financial institution referred to in Article 84 of this Act that intends to establish a branch within the territory of the Republic of Croatia may submit an application to enter a branch in the register of companies and begin to provide services:

1) on receipt of the notification from the Croatian National Bank of the conditions which, in the interests of the general good, must be met when providing services within the territory of the Republic of Croatia;

2) without receipt of such notification, following the expiry of a period of two months of receipt by the Croatian National Bank of the notification and enclosed data referred to in Article 76 of this Act from the competent authority of the home Member State.

(2) A credit or financial institution referred to in paragraph (1) of this Article that intends to subsequently change any of the data referred to in Article 76 of this Act delivered to the competent authority of the home Member State, shall, at least one month before effecting the change, notify the Croatian National Bank in writing in order to enable the Croatian National Bank to take actions in accordance with paragraph (1) of this Article.

(3) If a competent authority of the home Member State notifies the Croatian National Bank that the financial institution does not meet any of the conditions referred to in Article 84, paragraph (1) of this Act, the regulations governing the operation of financial institutions in the Republic of Croatia shall apply to the operation of the financial institution. In this case, the Croatian National Bank shall forward the notification in question to the supervisory authority in the Republic of Croatia.

Insurance of deposits with branches of credit institutions of other Member States

Article 86

(1) Credit institutions of other Member States shall be required to insure deposits with their branches operating within the territory of the Republic of Croatia in their home Member States.

(2) If the level and scope of deposit insurance in the home Member State are lower than that offered by the deposit insurance scheme in the Republic of Croatia, branches of credit institutions of other Member States may join as appropriate the deposit insurance scheme in the Republic of Croatia.

Direct provision of services in the Republic of Croatia

Article 87

(1) A credit institution of another Member State or the financial institution referred to in Article 84 of this Act may begin to directly provide mutually recognised services within the territory of the Republic of Croatia on the date of receipt by the Croatian National Bank of the notification from the competent authority of that Member State, including a list of services it intends to provide within the territory of the Republic of Croatia.

(2) A credit or financial institution referred to in paragraph (1) of this Article shall notify the Croatian National Bank of any intended change relating to the data from the notification referred to in the preceding paragraph at least one month before effecting the change.

Application of other provisions of this Act and other regulations to credit institutions of other Member States

Article 88

(1) The following shall apply *mutatis mutandis* to credit institutions of other Member States providing mutually recognised services directly within the territory of the Republic of Croatia:

- 1) provisions of this Act relating to the obligation of banking secrecy (Articles 156, 157 and 158);
- 2) provisions of this Act and regulations adopted under this Act relating to consumer protection (Articles 300 to 312);
- 3) regulations in the Republic of Croatia governing the prevention of money laundering and terrorist financing;
- 4) other regulations which, in the interests of the general good, apply within the territory of the Republic of Croatia; and
- 5) regulations in the Republic of Croatia governing monetary policy.

(2) In addition to the provisions referred to in paragraph (1) of this Article, the following shall apply *mutatis mutandis* to credit institutions of other Member States providing mutually recognised services within the territory of the Republic of Croatia through branches:

- 1) provisions of this Act relating to banking secrecy (Articles 156, 157 and 158);
- 2) provisions of this Act and regulations adopted under this Act relating to consumer protection (Articles 300 to 312);
- 3) regulations in the Republic of Croatia governing the prevention of money laundering and terrorist financing;
- 4) other regulations which, in the interests of the general good, apply within the territory of the Republic of Croatia;
- 5) regulations in the Republic of Croatia governing monetary policy;
- 6) provisions of this Act and regulations adopted under this Act relating to reports and information required for performing activities within the competence of the Croatian National Bank in the field of monitoring liquidity risk (Article 101, paragraph (2), item (1), sub-item (5) and Article 225);
- 7) regulations adopted by the Croatian National Bank for the purposes of monetary statistics;
- 8) regulations relating to the scope of data to be published by branches of credit institutions of the Member States;

9) provisions of Article 163, paragraphs (5) and (6) of this Act on audited annual financial statements; and

10) provisions of Article 200 of this Act on annual supervision fees and regulations adopted under that Article.

III.4.2 Branches of third-country credit institutions

Provision of services through branches of third-country credit institutions

Article 89

(1) A third-country credit institution (founder) may provide banking and/or financial services within the territory of the Republic of Croatia only through a branch, provided it is authorised to provide such services in the third country.

(2) A third-country credit institution (founder) intending to establish a branch within the territory of the Republic of Croatia shall obtain authorisation from the Croatian National Bank (hereinafter referred to as 'authorisation to establish a branch of a third-country credit institution').

(3) The authorisation referred to in paragraph (2) of this Article shall contain a list of services that branches of third-country credit institutions may provide within the territory of the Republic of Croatia.

(4) Branches of third-country credit institutions may be entered in the register of companies after obtaining authorisation from the Croatian National Bank.

(5) A third-country credit institution (founder) may establish only one branch within the territory of the Republic of Croatia. If a third-country credit institution (founder) wishes to operate in more than one location within the territory of the Republic of Croatia, it may open one or more organisational units.

Establishment of branches of third-country credit institutions

Article 90

(1) Applicants for authorisation to establish a branch of a third-country credit institution in the Republic of Croatia shall enclose with their application:

1) a certificate from the register of companies or other relevant register in the country where the third-country credit institution (founder) has its head office, not older than three months, indicating its legal form, date of the entry in the register, persons authorised to represent it and the scope of their powers or, if the credit institution is established in a country that does not keep such a register, legally valid documents on establishment certified in accordance with the regulations of the country where the credit institution has its head office, indicating its legal form, date of establishment, persons authorised to represent it and the scope of their powers;

- 2) the decision of the third-country credit institution (founder) to establish a branch;
- 3) a copy of the deed of establishment, memorandum or Articles of Association of the third-country credit institution (founder), certified in accordance with the regulations of the country where the credit institution has its head office;
- 4) data on the members of management and supervisory bodies of the third-country credit institution (founder);
- 5) an application for prior approval for persons who will be responsible for directing the business of the branch of the third-country credit institution;
- 6) audit reports of the third-country credit institution (founder) for the three preceding years of business;
- 7) a credible document indicating the owners of the institution and their rights in managing the third-country credit institution (founder);
- 8) a certificate from the register of companies or other relevant register in the country where legal persons who are holders of qualifying holdings in the third-country credit institution (founder) have their head office, including a list of natural persons who are the ultimate shareholders of these legal persons;
- 9) authorisation to provide banking and financial services granted to the third-country credit institution (founder) by the competent authority;
- 10) a list of banking and financial services the branch of the third-country credit institution intends to provide in the Republic of Croatia and a business plan for the first three years of business;
- 11) a relevant legal act of the competent authority in the Republic of Croatia where so required by the regulations governing the provision of financial services envisaged in the business plan referred to in item (10) of this paragraph;
- 12) a list of persons connected with the third-country credit institution (founder) in the manner referred to in Article 16 of this Act;
- 13) authorisation by the competent authority of the third-country credit institution (founder) to establish the branch or a statement by the authority in question that such authorisation is not required under the regulations of the country where the credit institution has its head office, not older than six months;
- 14) a statement by the third-country credit institution (founder) that the branch will keep all documentation relating to its business in the Croatian language and store it at the headquarters of the branch and will prepare financial statements in accordance with this Act or regulations adopted under this Act, and the regulations of the European Union governing the operation of credit institutions; and

15) information on the deposit insurance scheme of which the third-country credit institution (founder) is a member.

(2) The Croatian National Bank may request additional information and documentation within one month of receipt of the application referred to in paragraph (1) of this Article. If the Croatian National Bank requests additional information or documentation, the date of receipt of a valid application shall be deemed the delivery date.

(3) The provisions of Articles 36 to 40 and Article 44 of this Act and the regulations of the European Union governing the operation of credit institutions, in the part related to the rights and obligations of management board members, shall apply *mutatis mutandis* to the procedure for granting, annulment and revocation of prior approvals for persons who will be responsible for directing the business of a branch of a third-country credit institution.

(4) The Croatian National Bank shall refuse an application to establish a branch of a third-country credit institution if:

1) based on the data available to it and the documentation enclosed with the application, it assesses that the third-country credit institution (founder) does not have the adequate financial position or the appropriate organisational, technical and personnel structure to operate in accordance with the provisions of this Act and the regulations of the European Union governing the operation of credit institutions through a branch it intends to establish;

2) in view of the regulations of the country where the third-country credit institution (founder) has its head office or practices relating to their implementation, it is likely that the exercise of supervision in accordance with the provisions of this Act will be made difficult or prevented;

3) it assesses that the person responsible for directing the business of the branch of the third-country credit institution does not meet the criteria laid down for members of the credit institution's management board prescribed in Article 38 of this Act or the regulations of the European Union governing the operation of credit institutions, in the part related to the rights and obligations of management board members;

4) the third country in which the credit institution has its head office has no regulations preventing money laundering and/or if these regulations do not provide for effective supervision of the prevention of money laundering and if the third-country credit institution (founder) or persons referred to in paragraph (1), item (8) of this Article are, in any way whatsoever, connected with terrorist financing or there are indications of it;

5) the Croatian National Bank has not concluded a cooperation agreement regarding supervision with the competent authority of the third country in which the credit institution that is the founder of the branch has its head office; or

6) credit institutions with head offices in the Republic of Croatia are not provided at least the same conditions for establishment of a branch in the country where the third-country credit institution

(founder) has its head office as are provided to the third-country credit institution (founder) in the Republic of Croatia.

(5) The Croatian National Bank shall grant authorisation to establish a branch of a third-country credit institution under the condition that the third-country credit institution places a deposit of not less than HRK 40 million in the account with a credit institution which has its head office in the Republic of Croatia. The funds deposited shall be held in the account until the entry of the branch of the third-country credit institution (founder) in the register of companies, at which time they shall be transferred to the settlement account of the branch held with the Croatian National Bank. The funds shall be deemed to be own funds within the meaning of this Act.

(6) A third-country credit institution (founder) may increase the amount of own funds referred to in the preceding paragraph of this Article. The own funds increase may be effected only by payment in cash to the account of the branch held in the Republic of Croatia.

(7) Where a third-country credit institution (founder) intends to begin to provide other services that are not covered by the authorisation to establish a branch of the third-country credit institution within the territory of the Republic of Croatia, it shall apply to the Croatian National Bank for authorisation to provide such services.

(8) In connection with the authorisation referred to in paragraph (7) of this Article, the third-country credit institution (founder) shall deliver the documentation referred to in paragraph (1), items (9) and (10) and paragraph (2) of this Article. The provisions of paragraph (4) of this Article shall apply *mutatis mutandis*.

Dissolution of branches of third-country credit institutions

Article 91

(1) Authorisation to establish a branch of a third-country credit institution shall expire:

1) where the competent authority revoked the third-country credit institution's (founder) authorisation, as of the date of revocation of authorisation;

2) where the third-country credit institution (founder) ceases to exist in the country where it has its head office or under the regulations of that country loses its business capacity, or the competent court removes the third-country credit institution (founder) from the register of companies or other relevant register, or the institution loses the right to dispose of its assets, as of the date when one of the reasons arises;

3) where the third-country credit institution (founder) adopted a decision on winding-up of the branch;

4) where the Croatian National Bank adopted a decision on the compulsory winding-up of the branch of the third-country credit institution; or

5) where a competent court adopted a decision to open bankruptcy proceedings against the branch of the third-country credit institution.

(2) The Croatian National Bank shall revoke authorisation to establish a branch of a third-country credit institution (founder):

1) where conditions for refusal of the application for authorisation referred to in Article 90, paragraph (4), items (1), (2), (3) and (6) of this Act arise;

2) where the branch of the third-country credit institution fails to meet the requirements relating to deposit insurance laid down in the law governing deposit insurance;

3) where the branch of the third-country credit institution does not commence its activities within six months of the issue of authorisation;

4) where the branch of the third-country credit institution ceases to operate for more than six months;

5) where the third-country credit institution obtained authorisation to establish a branch on the basis of false or inaccurate data, which were relevant for obtaining authorisation to establish a branch;

6) where the branch of the third-country credit institution does not operate in accordance with applicable regulations of the Republic of Croatia and regulations of the European Union governing the operation of credit institutions; or

7) where the branch of the third-country credit institution fails to meet its financial obligations in the Republic of Croatia.

(3) Where the competent authority of a third-country credit institution (founder) revokes authorisation to provide a certain financial service, the credit institution shall notify the Croatian National Bank thereof. The Croatian National Bank shall revoke authorisation of a branch of a third-country credit institution to provide such service within the territory of the Republic of Croatia.

(4) The Croatian National Bank may order a branch of a third-country credit institution whose assets and contingent liabilities reported in its audited financial statements exceed 5% of total assets and contingent liabilities of all credit institutions in the Republic of Croatia to continue its operation in the Republic of Croatia as a credit institution.

(5) A third-country credit institution (founder) may apply for removal of a branch of the third-country credit institution from the register of companies only upon settlement of all obligations arising from the operation of the branch.

Application of other provisions of this Act to branches of third-country credit institutions

(1) The provisions of this Act and regulations adopted under this Act and the provisions of Regulation (EU) No 575/2013 relating to the following shall apply *mutatis mutandis* to branches of third-country credit institutions:

- 1) the credit institution's management board (Articles 36 to 44);
- 2) governance arrangements (Articles 98 to 100);
- 3) risk management system (Articles 101 to 103);
- 4) internal control systems (Articles 104 to 108);
- 5) outsourcing of business activities (Articles 109 to 111);
- 6) capital adequacy (Articles 112 to 115);
- 7) capital buffers and capital conservation measures (Articles 116 to 144);
- 8) approvals for exposures (Articles 145 to 147);
- 9) specific conditions for holdings of tangible assets and capital of other legal persons (Articles 148 and 149);
- 10) sale of placements (Article 150);
- 11) reporting to the Croatian National Bank (Articles 151 to 154);
- 12) banking secrecy (Articles 156 to 158);
- 13) business books and financial statements (Articles 159 to 164);
- 14) public disclosure (Articles 165 to 167);
- 15) external audit (Articles 168 to 174);
- 16) supervision of credit institutions (Articles 175 to 190 and Articles 199 and 200);
- 17) supervisory measures (Articles 217 to 234);
- 18) dissolution and reorganisation (Articles 246 to 249, Articles 263 and 276 and Articles 345 to 357);
- 19) consumer protection (Articles 300 to 312);
- 20) the decision-making procedures of the Croatian National Bank (Articles 322 to 328); and

21) misdemeanours (Articles 360 to 367).

(2) The provisions of Regulation (EU) No 575/2012 and regulations adopted under that Regulation shall apply *mutatis mutandis* to branches of third-country credit institutions.

(3) The Croatian National Bank shall adopt subordinate regulation to further regulate the provisions on the establishment, operation, reporting to the Croatian National Bank, and dissolution of branches of third-country credit institutions together with the manner of application of the provisions of paragraph (1) of this Article to branches of third-country credit institutions.

Insurance of deposits with branches of third-country credit institutions

Article 93

(1) A third-country credit institution (founder) shall be required to insure deposits with its branches operating within the territory of the Republic of Croatia in its home country.

(2) The scope and level of coverage for deposits with branches of third-country credit institutions shall not exceed the scope and level laid down in deposit insurance regulations in the Republic of Croatia.

(3) Where there is no deposit insurance scheme in the country where the credit institution has its head office or if the scope and/or level of coverage for deposits are lower than in the Republic of Croatia, a branch of a third-country credit institution shall join the deposit insurance scheme in the Republic of Croatia.

III.4.3 Representative offices of third-country credit institutions

Authorisation to establish a representative office of a third-country credit institution

Article 94

(1) Before establishing a representative office in the Republic of Croatia, a third-country credit institution shall obtain authorisation from the Croatian National Bank (hereinafter referred to as 'authorisation to establish a representative office of a third-country credit institution').

(2) The following shall be enclosed with the application for authorisation referred to in paragraph (1) of this Article:

1) a certificate from the register of companies or other relevant register where the credit institution is entered, not older than three months, indicating its legal form, date of the entry in the register, persons authorised to represent it and the scope of their powers or, if the credit institution is established in a country that does not keep such a register, legally valid documents on establishment certified in accordance with the regulations of the country where the credit institution has its head office, indicating its legal form, date of establishment, persons authorised to represent it and the scope of their powers;

- 2) a copy of the deed of establishment, memorandum or Articles of Association of the third-country credit institution, certified in accordance with the regulations of the country where the credit institution has its head office;
- 3) audit report, including audited financial statements, of the third-country credit institution for the three preceding years of business;
- 4) the decision of the third-country credit institution to establish a representative office;
- 5) data on the headquarters (address) of the representative office and its business premises;
- 6) authorisation by the competent authority of the third-country credit institution to establish a representative office in the Republic of Croatia or a statement by the authority in question that such authorisation is not required;
- 7) a certified statement by the third-country credit institution that it will settle all liabilities arising in the Republic of Croatia as a result of the activities of the representative office;
- 8) evidence of payment of all administrative fees; and
- 9) a list of persons responsible for directing the business of the representative office.

(3) The Croatian National Bank shall refuse an application to establish a representative office of a third-country credit institution within 60 days of receipt of the valid application if it establishes that:

- 1) cooperation between the competent authority of the third-country credit institution and the Croatian National Bank is not possible; and
- 2) there is reasonable doubt that the third-country credit institution is, in any way whatsoever, connected with terrorist financing, money laundering, and the like.

(4) After the date of enforceability of authorisation to establish a representative office a third-country credit institution, the Croatian National Bank shall enter the representative office in the register of representative offices of credit institutions in the Republic of Croatia.

(5) Where a representative office of a third-country credit institution acts contrary to the regulations of the Republic of Croatia, the Croatian National Bank may revoke authorisation to establish a representative office of the third-country credit institution.

(6) The Croatian National Bank may adopt subordinate regulation to further regulate the conditions for the establishment and operation of representative offices of third-country credit institutions.

Register of representative offices of credit institutions in the Republic of Croatia

(1) The Croatian National Bank shall keep the register of representative offices of credit institutions in the Republic of Croatia.

(2) The Croatian National Bank may prescribe the manner in which the register of representative offices of credit institutions is to be kept and the manner in which data from the register is to be published.

IV SCOPE OF APPLICATION OF PRUDENTIAL REQUIREMENTS

Compliance with requirements on an individual basis

Article 96

(1) Credit institutions with head offices in the Republic of Croatia shall comply with the following requirements on an individual basis:

- 1) governance arrangements referred to in Article 101 of this Act;
- 2) strategies and procedures to assess the adequacy of internal capital referred to in Article 113 of this Act;
- 3) a capital conservation buffer referred to in Article 117 of this Act;
- 4) a countercyclical capital buffer referred to in Article 118 of this Act;
- 5) a structural systemic risk buffer referred to in Article 130 of this Act, in the manner referred to in Article 139 of this Act;
- 6) an O-SII buffer referred to in Article 137 of this Act, in the manner referred to in Article 139 of this Act;
- 7) holdings of tangible assets referred to in Article 148 of this Act;
- 8) strategies and procedures to assess the adequacy of internal capital referred to in Article 113 of this Act; and
- 9) preparation and delivery of financial statements and other reports for the purposes of the Croatian National Bank.

(2) By way of derogation from paragraph (1), item (2) of this Article, a credit institution which is included in a group of credit institutions in the Republic of Croatia need not meet these requirements on an individual basis, provided that in the Republic of Croatia it has a status of:

- 1) a parent credit institution;

2) a credit institution which is a subsidiary of a parent credit institution in the Republic of Croatia, a parent financial holding company in a group of credit institutions in the Republic of Croatia or a parent mixed financial holding company in a group of credit institutions in the Republic of Croatia.

(3) The obligation referred to in paragraph (1), item (2) of this Article shall also apply to a credit institution that is under Article 19 of Regulation (EU) No 575/2013 excluded from a group of credit institutions in the RC.

Compliance with requirements on a consolidated basis

Article 97

(1) An RC parent credit institution shall comply with the following requirements on a consolidated basis for its group of credit institutions in the RC:

1) governance arrangements referred to in Article 101 of this Act, in accordance with Part One, Title II of Regulation (EU) No 575/2013;

2) strategies and procedures to assess the adequacy of internal capital referred to in Article 113 of this Act, in the manner prescribed in Part One, Title II, Chapter 2, Sections 2 and 3 of Regulation (EU) No 575/2013;

3) preparation and delivery of financial statements and other reports for the purposes of the Croatian National Bank;

4) a capital conservation buffer referred to in Article 117 of this Act, in accordance with Part One, Title II of Regulation (EU) No 575/2013;

5) a countercyclical capital buffer referred to in Article 118 of this Act, in accordance with Part One, Title II of Regulation (EU) No 575/2013;

6) a structural systemic risk buffer referred to in Article 130 of this Act, in accordance with Part One, Title II of Regulation (EU) No 575/2013 and in the manner referred to in Article 139 of this Act;

7) a G-SII buffer referred to in Article 135 of this Act, in the manner referred to in Article 139 of this Act;

8) an O-SII buffer referred to in Article 137 of this Act, in the manner referred to in Article 139 of this Act; and

9) holdings of tangible assets referred to in Article 148, paragraph (3) of this Act;

(2) A credit institution which has its head office in the Republic of Croatia and is a subsidiary of a parent financial holding company or parent mixed financial holding company pursuant to Article 278 of this Act shall comply with the requirements referred to in paragraph (1) of this Article on a

consolidated basis for its group of credit institutions in the Republic of Croatia. Where several credit institutions in the Republic of Croatia are subsidiaries of the same parent financial holding company or the same parent mixed financial holding company, the requirements referred to in paragraph (1) of this Article shall relate to the credit institution with the largest balance sheet total.

(3) A parent credit institution shall comply with the following requirements on a consolidated basis for its group of credit institutions in the RC:

1) governance arrangements referred to in Article 101 of this Act;

2) a structural systemic risk buffer referred to in Article 130 of this Act, in the manner referred to in Article 139 of this Act; and

3) an O-SII buffer referred to in Article 137 of this Act, in the manner referred to in Article 139 of this Act.

(4) Where a subsidiary credit institution, a parent mixed financial holding company in a group of credit institutions in the Republic of Croatia or a parent financial holding company in a group of credit institutions in the Republic of Croatia is a parent of or holds a participation in another credit or financial institution, an UCITS management company or a pension company with a head office in a third country, it shall comply with the requirements referred to in paragraph (1), item (2) of this Article on a sub-consolidated basis.

(5) A parent credit institution in a group of credit institutions in the Republic of Croatia, a parent financial holding company referred to in Article 278 of this Act and a parent mixed financial holding company referred to in Article 278 of this Act, and their subsidiary undertakings in a group of credit institutions in the Republic of Croatia shall comply with the requirements on governance arrangements referred to in Article 101 of this Act on a consolidated or sub-consolidated basis, in order to ensure that the organisational structure, procedures and systems within the group of credit institutions are consistent and well-integrated and enable the collection of any data and information relevant for the purposes of supervision.

(6) A parent credit institution in a group of credit institutions in the Republic of Croatia, a parent financial holding company referred to in Article 278 of this Act and a parent mixed financial holding company referred to in Article 278 of this Act, and their subsidiary undertakings in a group of credit institutions in the Republic of Croatia shall ensure that the organisational structure, procedures and systems referred to in paragraph (5) of this Article be established in their third-country subsidiaries so as to enable these subsidiaries to collect any data and information relevant for the purposes of supervision.

(7) By way of derogation from paragraph (6) of this Article, obligations under Article 101 of this Act, in the part related to third-country subsidiaries, shall not apply to a parent credit institution in a group of credit institutions in the RC, a parent financial holding company referred to in Article 278 of this Act and a parent mixed financial holding company referred to in Article 278 of this Act, and their subsidiary undertakings in a group of credit institutions in the Republic of Croatia if they can demonstrate to the Croatian National Bank that the application of these requirements would be unlawful under the laws of the third country where the subsidiary is established.

V GOVERNANCE ARRANGEMENTS

V.1 GENERAL PROVISIONS

Liquidity principle and solvency principle

Article 98

A credit institution shall operate so as to be able to meet its due and payable financial obligations at all times (liquidity principle) as well as to meet all of its obligations on an ongoing basis (solvency principle).

Prohibition on profit distribution

Article 99

(1) A credit institution shall not make advance profit or dividend payments, pay out profits or dividends or make payments deriving from the participation of its management board, supervisory board or employees in the profits of the credit institution in the following cases:

- 1) where the credit institution's own funds are below the initial capital referred to in Article 19 of this Act;
- 2) where the credit institution fails to settle its due obligations in a timely manner or where payment of profit would render it unable to settle its due obligations;
- 3) where the Croatian National Bank orders the credit institution to eliminate weaknesses and deficiencies related to the misstatement of any on- and off-balance sheet items whose correct statement would affect the presentation of business results in the credit institution's profit and loss account; or
- 4) where the Croatian National Bank so orders in its decision in the light of the manner in which the credit institution manages the risks to which it is or might be exposed in its operation.

(2) The prohibitions referred to in the preceding paragraph shall apply:

- 1) in cases referred to in paragraph (1), item (1) of this Article, until the credit institution reaches the adequate capital level;
- 2) in cases referred to in paragraph (1), item (2) of this Article, until the credit institution eliminates liquidity disruptions;
- 3) in cases referred to in paragraph (1), item (3) of this Article, until the credit institution eliminates all weaknesses and deficiencies in the presentation of items, unless correct presentation gives rise to reasons for the prohibition referred to in paragraph (1), items (1) and (2) of this Article; and

4) in cases referred to in paragraph (1), item (4) of this Article, for the duration of the time limits or until the credit institution complies with the measures laid down in the decision.

Payment of variable remuneration

Article 100

A credit institution that contracts the payment of variable remuneration contrary to the provisions of this Act or the provisions of subordinate legislation adopted under Article 101, paragraph (2), item (5) of this Act may not pay the contracted variable remuneration and such contractual provisions shall be null and void.

V.2 GOVERNANCE ARRANGEMENTS

Governance arrangements

Article 101

(1) A credit institution shall establish and implement effective and sound governance arrangements that are proportionate to the nature, scale and complexity of its activities and the risks inherent in its business model, including:

- 1) a clear organisational structure with well-defined, transparent and consistent lines of responsibility and accountability within the credit institution, established so as to avoid conflicts of interest;
- 2) effective management of all risks to which the credit institution is or might be exposed in its operation;
- 3) adequate internal control systems, including sound administrative and accounting procedures; and
- 4) remuneration policies that are consistent with and promote sound and effective risk management.

(2) The Croatian National Bank may adopt subordinate legislation to further specify the requirements on governance arrangements, in particular:

- 1) regarding risk management rules:
 - general risk management rules;
 - credit risk management rules;
 - rules for the management of market risks;

- standard interest rate shock, the method of calculating the credit institution's economic value, reporting to the Croatian National Bank and other procedures and principles to manage interest rate risk in the non-trading book;

- the method of calculating liquidity positions and liquidity risk management rules;

- operational risk management rules;

- rules on information system management and management of risks arising from the use of the information system;

- rules for the management of other risks;

2) regarding monitoring of credit risk-bearing portfolios:

- the criteria for the classification of placements and off-balance sheet liabilities on the basis of which a credit institution is exposed to credit risk;

- the method of determining losses arising from credit risk;

- the method of determining value adjustments, impairment of on-balance sheet items and provisions for off-balance sheet items;

- rating of instruments of collateral for receivables; and

- keeping of credit records;

3) regarding the calculation of large exposures, defining the criteria for links:

4) provisions for litigation costs and legal risk;

5) the rules, procedures and criteria regarding remuneration policies, and in particular:

- the definition of employee remuneration;

- requirements regarding employee remuneration and the method and scope of their implementation; and

- the method of and time limits for reporting to the Croatian National Bank on employee remuneration;

6) regarding limits on holdings of tangible assets:

- the method of assessing and including individual holdings in the calculation of limits on holdings of tangible assets;

– the method of calculating limits on holdings;

– the method of and time limits for reporting to the Croatian National Bank;

7) regarding reporting to the Croatian National Bank:

– contents of reports and notifications;

– time limits for and the method of reporting;

8) the method and scope of application of the requirements related to recovery plans and the content of such plans and the method of and time limits for their submission.

(3) The Croatian National Bank may adopt subordinate legislation to further regulate the allocation of reserves for general banking risks, the method of calculating individual and all open positions and of the largest permitted difference between these positions, and limits determining special conditions for the operation of credit institutions.

V.2.1 ORGANISATIONAL STRUCTURE

Organisational structure

Article 102

(1) A credit institution has established a clear organisational structure with well-defined, transparent and consistent lines of responsibility and accountability within the credit institution, established so as to avoid conflicts of interest where it:

1) enables an effective communication and cooperation at all organisational levels, including an appropriate information flow within the credit institution;

2) limits and prevents conflicts of interest; and

3) provides for a transparent and documented decision-making process.

(2) A credit institution shall in a timely manner identify the areas of operation which may give rise to potential conflicts of interest and it shall ensure that any form of conflict of interest is adequately prevented.

V.2.2 RISK MANAGEMENT

Risk management

Article 103

(1) For the purposes of this Act, 'risk management' means a set of procedures and methods to identify, measure, evaluate, contain and monitor risks, including reporting on the risks to which a credit institution is or might be exposed in its operation.

(2) The risk management system of a credit institution shall cover credit risk, concentration risk, securitisation risks, residual risk, market risks, operational risk, liquidity risk, interest rate risk in the non-trading book, risk of excessive leverage and other risks to which the credit institution is or might be exposed in its operation.

(3) A credit institution shall ensure that adequate resources are allocated to the management of all material risks, including an adequate number of employees possessing the necessary knowledge and experience to be involved in risk management, and for the valuation of assets, the use of external credit ratings and internal models related to those risks.

(4) A credit institution shall establish adequate reporting lines to the management and supervisory board that cover all material risks and risk management policies and changes thereof.

(5) In order to consistently apply risk management strategies and policies, a credit institution shall establish and apply consistently over time adequate internal control systems, including sound administrative, accounting and other procedures, in particular for:

1) calculating and monitoring capital requirements in relation to these risks; and

2) identifying and monitoring large exposures and subsequent changes to them, and for that of monitoring those exposures in the light of each credit institution's own exposure policies.

V.2.3 INTERNAL CONTROL SYSTEMS

Internal control system

Article 104

(1) 'Internal control system' means a group of processes and procedures established for adequate risk control, monitoring the efficiency and effectiveness of a credit institution's operation, reliability of its financial and other information, and compliance with regulations, internal bylaws, standards and codes in order to ensure the stability of the credit institution's operation.

(2) A credit institution shall establish and implement effective internal control systems in all areas of operation including at a minimum:

1) an appropriate organisational structure;

2) organisational culture;

3) establishment of the credit institution's control functions;

- 4) adequate control activities and the allocation of responsibilities;
- 5) appropriate internal controls integrated into the business processes and activities of the credit institution; and
- 6) appropriate administrative and accounting procedures.

Control functions

Article 105

(1) A credit institution shall establish three control functions:

- 1) a risk control function,
- 2) a compliance function, and
- 3) an internal audit function.

(2) The management board of a credit institution shall adopt an internal bylaw on each control function, subject to the prior approval of the supervisory board.

(3) The Croatian National Bank may adopt subordinate legislation to further regulate the content of an internal bylaw on each control function, the criteria to be met by the persons carrying out control function activities, the content and frequency of control function reports, the persons to whom such reports are delivered, the scope and method of operation of each individual function referred to in paragraph (1) of this Article, as well as the method in which a credit institution's management board reviews the appropriateness and effectiveness of the control functions in accordance with Article 41, paragraph (5) of this Act.

Organisational structure of control functions

Article 106

(1) A credit institution shall establish permanent and effective control functions independent from the business processes and activities in which a risk occurs or which are monitored and overseen by control functions, proportionally to its size and the nature, scale and complexity of its activities in accordance with its risk profile.

(2) No individual control function may be organised within other control functions.

(3) By way of derogation from paragraph (2) of this Article, a credit institution may organise the performance of activities of the compliance function within the risk control function or a support function if this is appropriate to its size and the nature, scale and complexity of its activities, but activities of this function may not be organised within the internal audit function.

(4) A credit institution shall organise an internal audit function as a separate organisational unit, functionally and organisationally independent both from the activities it audits and from other organisational units of the credit institution.

(5) A credit institution shall organise its control functions in a manner to cover all material risks to which the credit institution is or might be exposed in its operation.

(6) A credit institution shall establish control functions in a manner to avoid conflicts of interest.

(7) A credit institution may not fully outsource its control functions. A credit institution may entrust the performance of a part of activities related to the control functions to service providers in accordance with this Title and regulations adopted under this Act.

Persons carrying out control functions

Article 107

(1) A credit institution shall, proportionally to its size and the nature, scale and complexity of its activities, for the carrying out of each control function ensure a sufficient number of persons with adequate knowledge and experience.

(2) Where several persons are entrusted with the performance of a certain control function, a person responsible for the operation of the control function as a whole shall be appointed.

(3) A credit institution's management board may neither appoint nor remove a person responsible for the operation of a control function without approval of the credit institution's supervisory board.

(4) A credit institution shall notify the Croatian National Bank without delay, and at the latest within three working days, of the appointment of persons responsible for the operation of each control function and of the reasons for their removal.

(5) A person responsible for the operation of a control function shall report directly to the management board and the supervisory board, as well as the audit committee, and/or another relevant committee established by the supervisory board and shall, on an annual basis at a minimum, participate in the meetings of the bodies to which he/she reports.

(6) Credit institutions shall provide regular professional education and training for persons carrying out control function activities.

Notification to the credit institution's management and supervisory board and the Croatian National Bank

Article 108

Where a person responsible for the operation of a control function, in carrying out his/her activities, identifies illegalities in the operation or violations of risk management rules or risk developments

that jeopardise the liquidity, solvency or safety of the credit institution's operation, he/she shall immediately notify the credit institution's management and supervisory board, and the Croatian National Bank.

V.2.4 OUTSOURCING OF BUSINESS ACTIVITIES

Definition of outsourcing

Article 109

(1) 'Outsourcing' means a contractual agreement by which external service providers are engaged to perform activities which would otherwise be performed by the credit institution.

(2) For the purposes of paragraph (1) of this Article, outsourcing shall not be considered to include:

- the procurement of goods and works;
- leasing or renting; or
- utility services.

Conditions for outsourcing

Article 110

(1) A credit institution shall establish an adequate system of managing risks related to outsourcing.

(2) A credit institution shall ensure that outsourcing does not impair:

- 1) its regular operation;
- 2) its effective risk management;
- 3) its internal control systems; and
- 4) supervision by the Croatian National Bank.

(3) A credit institution which intends to outsource materially important activities shall notify the Croatian National Bank thereof and submit the prescribed documentation.

(4) The Croatian National Bank shall assess whether conditions for outsourcing prescribed in this Act and other regulations have been met and notify the credit institution of its assessment within 90 days of receipt of the notification and complete documentation referred to in paragraph (3) of this Article.

Croatian National Bank regulations relating to outsourcing

Article 111

The Croatian National Bank may adopt subordinate regulation to further regulate:

- 1) the term 'materially important activities';
- 2) detailed conditions for outsourcing; and
- 3) the content of documentation to be enclosed with and time limits for delivery of the notification referred to in Article 110, paragraph (3) of this Act.

VI CAPITAL ADEQUACY

Capital adequacy

Article 112

A credit institution shall at all times ensure an amount of capital that is proportionate to the nature, scale and complexity of its activities as well as the risks to which it is or might be exposed to while providing services.

Strategies and procedures to assess the adequacy of internal capital

Article 113

- (1) Credit institutions shall have in place and implement sound, effective and comprehensive strategies and procedures to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital.
- (2) 'Internal capital' means the capital that credit institutions consider adequate to cover the nature and level of the risks to which they are or might be exposed.
- (3) Credit institutions shall regularly review the strategies and procedures referred to in paragraph (1) of this Article to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities they carry out.
- (4) The Croatian National Bank shall adopt subordinate legislation to further regulate the assessment procedures, the method of and time limits for reporting to the Croatian National Bank on the adequacy of a credit institution's internal capital and the internal capital calculation on an individual and consolidated basis.

Permissions of the Croatian National Bank

Article 114

(1) If notification of a planned change in an internal model is not required under Regulation (EU) No 575/2013 or regulations adopted under that Regulation, a credit institution shall immediately notify the Croatian National Bank of the planned change in the internal model for which it was granted permission by the Croatian National Bank.

(2) In the case referred to in paragraph (1) of this Article, the Croatian National Bank shall assess whether the planned change requires amendments to the permission on the basis of the documentation delivered and any other available information.

(3) If notification of non-compliance with requirements is not required under Regulation (EU) No 575/2013 or regulations adopted under that Regulation, a credit institution shall immediately notify the Croatian National Bank if it ceases to comply with the requirements for obtaining the permission and shall enclose:

- 1) evidence that the effect of non-compliance is immaterial; or
- 2) a plan for ensuring compliance with the requirements for obtaining the permission.

Internal approaches for calculating own funds requirements

Article 115

(1) Credit institutions that are significant in terms of their size, internal organisation and the nature, scale and complexity of their activities shall:

1) take appropriate measures to develop internal credit risk assessment capacity and to use the internal ratings based approach for calculating own funds requirements for credit risk:

- a) where their exposures are material in absolute terms, and
- b) where they have at the same time a large number of material counterparties;

2) take appropriate measures to develop internal specific risk assessment capacity and to develop and use internal models for calculating own funds requirements for specific risk of debt instruments in the trading book, together with internal models to calculate own funds requirements for default and migration risk:

- a) where their exposures are material in absolute terms, and
- b) where they have a large number of material positions in debt instruments of different issuers.

(2) Significant credit institutions shall not solely rely on external credit ratings for assessing the creditworthiness of a client or financial instrument.

VII CAPITAL BUFFERS

Definitions

Article 116

The terms used in this Chapter shall have the following meaning:

- 1) 'capital conservation buffer' means the own funds that a credit institution is required to maintain in accordance with Article 117 of this Act;
- 2) 'countercyclical capital buffer' means the own funds that a credit institution is required to maintain in accordance with Article 118 of this Act, calculated with respect to each credit institution,
- 3) 'G-SII buffer' means the own funds that global systemically important credit institutions (hereinafter referred to as 'G-SIIs') are required to maintain in accordance with Article 135 of this Act;
- 4) 'O-SII buffer' means the own funds that other systemically important credit institutions (hereinafter referred to as 'O-SIIs') are required to maintain in accordance with Article 137 of this Act;
- 5) 'structural systemic risk buffer' means the own funds that a credit institution is required to maintain in accordance with Article 130 of this Act;
- 6) 'structural systemic risk' means a long-term non-cyclical systemic or macroprudential risk or the risk arising from the structure and organisation of the financial system;
- 7) 'combined buffer requirement' means the total common equity tier 1 capital required to meet the requirement for the capital conservation buffer extended by the following, as applicable:
 - a) a countercyclical capital buffer;
 - b) a G-SII buffer;
 - c) an O-SII buffer;
 - d) a structural systemic risk buffer;
- 8) 'countercyclical buffer rate' means the rate that credit institutions must apply in order to calculate their institution-specific countercyclical capital buffer, and that is set in accordance with Article 119 or 124 of this Act or by a relevant third-country authority, as the case may be;
- 9) 'institution-specific countercyclical buffer rate' means the rate that a specific credit institution calculates under the rules set out in Article 126 of this Act to calculate a countercyclical capital buffer;

10) 'buffer guide' means a benchmark buffer rate calculated in accordance with guidance of the European Systemic Risk Board referred to in Article 135, paragraph (1) of Directive 2013/36/EU on setting countercyclical buffer rates;

11) 'designated authority' means the authority responsible for setting the countercyclical buffer rate, the structural systemic risk buffer rate, or the G-SII buffer and O-SII buffer rate;

12) 'total risk exposure amount' means the total risk exposure amount calculated in accordance with Article 92, paragraph (3) of Regulation (EU) No 575/2013.

VII.1 CAPITAL CONSERVATION BUFFER

Capital conservation buffer

Article 117

(1) Credit institutions shall maintain a capital conservation buffer of common equity tier 1 capital equal to 2.5% of their total risk exposure amount.

(2) Credit institutions shall not use common equity tier 1 capital that is maintained to meet the requirement under paragraph (1) of this Article to meet any requirements imposed under Article 92 of Regulation (EU) No 575/2013 and any requirements imposed under Articles 220, 224 and 228 of this Act.

(3) Where a credit institution fails to meet the requirement under paragraph (1) of this Article, it shall apply the provisions of Article 140, paragraphs (2), (3) and (5) and Article 143 of this Act.

VII.2 COUNTERCYCLICAL CAPITAL BUFFER

General provisions

Article 118

(1) Credit institutions shall maintain an institution-specific countercyclical capital buffer of common equity tier 1 capital equivalent to their total risk exposure amount multiplied by the specific countercyclical buffer rate referred to in Article 126 of this Act.

(2) Credit institutions shall not use common equity tier 1 capital that is maintained to meet the requirement under paragraph (1) of this Article to meet any requirements imposed under Article 92 of Regulation (EU) No 575/2013, the requirement to maintain a capital conservation buffer referred to in Article 117 of this Act and any requirements imposed under Articles 220, 224 and 228 of this Act.

(3) Where a credit institution fails to meet the requirement under paragraph (1) of this Article, it shall apply the provisions of Article 140, paragraphs (2), (3) and (5) and Article 143 of this Act.

Setting the countercyclical buffer rate for the Republic of Croatia

Article 119

(1) The Croatian National Bank shall be the designated authority that is responsible for setting the countercyclical buffer rate for the Republic of Croatia, i.e. the designated authority for the purposes of Article 136, paragraph (1) of Directive 2013/36/EU.

(2) The Croatian National Bank shall calculate for every quarter a buffer guide as a reference to guide its exercise of judgement in setting the countercyclical buffer rate in accordance with paragraph (3) of this Article.

(3) The buffer guide referred to in paragraph (2) of this Article shall reflect, in a meaningful way, the credit cycle and the risks due to excess credit growth in the Republic of Croatia and shall duly take into account specificities of the Croatian economy. The buffer guide shall be based on the deviation of the ratio of credit-to-GDP from its long-term trend, taking into account, *inter alia*:

1) an indicator of growth of levels of credit within the Republic of Croatia and, in particular, an indicator reflective of the changes in the ratio of credit granted in the Republic of Croatia to GDP;

2) any current guidance maintained by the European Systemic Risk Board on the measurement and calculation of the deviation from long term trends of ratios of credit-to-GDP and the calculation of buffer guides in accordance with Article 135, paragraph (1), item (b) of Directive 2013/36/EU.

(4) The Croatian National Bank shall assess and set the appropriate countercyclical buffer rate for the Republic of Croatia on a quarterly basis and shall adopt relevant subordinate legislation taking into account:

1) the buffer guide referred to in paragraphs (2) and (3) of this Article;

2) any current guidance maintained by the European Systemic Risk Board in accordance with Article 135, paragraph (1), items (a), (c) and (d) of Directive 2013/36/EU and any recommendations issued by that board on the setting of the countercyclical buffer rate; and

3) other variables that the Croatian National Bank considers relevant for addressing cyclical systemic risk.

(5) The decision referred to in paragraph (4) of this Article shall contain the countercyclical buffer rate and the date from which it shall be applied.

Level of the countercyclical buffer rate

Article 120

(1) The Croatian National Bank shall set the countercyclical buffer rate, expressed as a percentage of the total risk exposure amount, between 0% and 2.5%, calibrated in steps of 0.25 percentage points or multiples of 0.25 percentage points.

(2) By way of derogation from paragraph (1) of this Article, the Croatian National Bank may set a countercyclical buffer rate in excess of 2.5% of the total risk exposure amount where this is justified on the basis of the assessment referred to in Article 119, paragraph (4) of this Act. This rate shall be applied for the calculation of the institution-specific countercyclical buffer rate in accordance with Article 126 of this Act.

The beginning of the application or increasing a countercyclical buffer rate

Article 121

(1) Where the Croatian National Bank sets the countercyclical buffer rate above 0% for the first time, or where, thereafter, it increases the prevailing countercyclical buffer rate setting, it shall also decide the date from which that increased buffer must be applied for the purposes of calculating a countercyclical capital buffer.

(2) The date referred to in paragraph (1) of this Article shall be no later than 12 months after the announcement referred to in Article 123 of this Act.

(3) By way of derogation from paragraph (2) of this Article, where so justified on the basis of exceptional circumstances, the Croatian National Bank may set the date less than 12 months after the increased buffer setting is announced in accordance with Article 123 of this Act.

Reduction or cancellation of the applied countercyclical buffer rate

Article 122

(1) If the Croatian National Bank reduces the existing countercyclical buffer rate or sets it at 0%, in the announcement referred to in Article 123 of this Act, it shall also determine an indicative period during which no increase in the buffer is expected.

(2) The indicative period referred to in paragraph (1) of this Article shall not bind the Croatian National Bank.

Announcement of the countercyclical buffer rate for the Republic of Croatia

Article 123

(1) The Croatian National Bank shall publish the decision referred to in Article 119, paragraph (4) of this Act in the Official Gazette and announce it on its website. The announcement on the website shall include at least the following information:

1) the applicable countercyclical buffer rate;

- 2) the relevant credit-to-GDP-ratio and its deviation from the long-term trend;
- 3) the buffer guide referred to in Article 119, paragraphs (2) and (3) of this Act;
- 4) a justification for that countercyclical buffer rate;
- 5) where the buffer rate is increased, the date from which the credit institutions must apply that increased buffer rate for the purposes of calculating the countercyclical capital buffer;
- 6) where the date referred to in point (5) of this paragraph is less than 12 months after the date of the announcement under this paragraph, a reference to the exceptional circumstances that justify that shorter deadline for application; and
- 7) where the buffer rate is decreased, the indicative period during which no increase in the buffer rate is expected, together with a justification for that period.

(2) The Croatian National Bank shall take all reasonable steps to coordinate the timing of the announcement referred to in paragraph (1) of this Article with the timing of the announcements by designated authorities from other Member States.

(3) The Croatian National Bank shall notify each quarterly setting of the countercyclical buffer rate and the information specified in paragraph (1) of this Article to the European Systemic Risk Board.

Recognition of the countercyclical buffer rate in excess of 2.5%

Article 124

(1) Where a designated authority of another Member State or a relevant third-country authority has set a countercyclical buffer rate in excess of 2.5% of the total risk exposure amount, the Croatian National Bank may adopt a decision to recognise that buffer rate for the purposes of the calculation of the countercyclical capital buffer.

(2) Where the Croatian National Bank adopts a decision to recognise the rate referred to in paragraph (1) of this Article, it shall publish that decision in the Official Gazette and announce it on its website. The announcement on the website shall include at least the following information:

- 1) the applicable countercyclical buffer rate;
- 2) the Member State or a third country to which the rate referred to in paragraph (1) of this Article applies;
- 3) where the buffer rate is increased, the date from which the credit institutions must apply that increased buffer rate for the purposes of calculating the countercyclical capital buffer; and

4) where the date referred to in point (3) of this paragraph is less than 12 months after the date of the announcement under this paragraph, a reference to the exceptional circumstances that justify that shorter deadline for application.

(3) The decision referred to in paragraph (1) of this Article shall contain the countercyclical buffer rate, the Member State or third country to which that rate applies and the date from which it shall be applied.

Deciding on third country countercyclical buffer rates

Article 125

(1) For the purposes of the calculation of the countercyclical capital buffer for credit institutions for exposures located in third countries, the Croatian National Bank may adopt a decision on:

1) a countercyclical buffer rate for a third country where a countercyclical buffer rate has not been set and published by the relevant third-country authority for that third country; and

2) where a countercyclical buffer rate has been set and published by the relevant third-country authority for a third country, a different countercyclical buffer rate for that third country if it reasonably considers that the buffer rate set by the relevant third-country authority is not sufficient to protect those credit institutions appropriately from the risks of excessive credit growth in that country.

(2) In the case referred to in paragraph (1), item (2) of this Article, the Croatian National Bank shall not set a countercyclical buffer rate below the level set by the relevant third-country authority unless that buffer rate exceeds 2.5%, expressed as a percentage of the total risk exposure amount.

(3) Where the Croatian National Bank sets a countercyclical buffer rate for a third country pursuant to paragraph (1) or (2) of this Article which increases the existing applicable countercyclical buffer rate set by the relevant third-country authority, the Croatian National Bank shall decide the date from which that buffer rate must be applied for the purposes of calculating the countercyclical capital buffer.

(4) The date referred to in paragraph (3) of this Article shall be 12 months from the date when the increased countercyclical buffer rate is announced in accordance with paragraph (6) of this Article.

(5) By way of derogation from paragraph (4) of this Article, where so justified on the basis of exceptional circumstances, the Croatian National Bank may set the date referred to in paragraph (3) of this Article at less than 12 months after the increased countercyclical buffer rate is announced in accordance with paragraph (6) of this Article.

(6) The Croatian National Bank shall publish a decision on a countercyclical buffer rate for a third country set pursuant to paragraph (1) or (2) of this Article in the Official Gazette and announce it on its website. The announcement on the website shall include at least the following information:

- 1) the countercyclical buffer rate and the third country to which it applies;
 - 2) a justification for that buffer rate;
 - 3) where the countercyclical buffer rate is set above 0% for the first time or is increased, the date from which the credit institutions must apply that increased buffer rate for the purposes of calculating the countercyclical capital buffer; and
 - 4) where the date referred to in point (3) of this paragraph is less than 12 months after the date of the announcement under this paragraph, a reference to the exceptional circumstances that justify that shorter deadline for application.
- (7) The decision referred to in paragraph (6) of this Article shall contain the countercyclical buffer rate and the date from which it shall be applied.

Calculation of an institution-specific countercyclical buffer rate

Article 126

- (1) A credit institution shall calculate the institution-specific countercyclical buffer rate as the weighted average of the countercyclical buffer rates that have been set and published for the Republic of Croatia, other Member States and third countries where the relevant credit exposures of the credit institution are located or are applied in accordance with Article 125 of this Act.
- (2) For the purposes of paragraph (1) of this Article, a credit institution shall provide adequate records of applicable countercyclical buffer rates for countries where its relevant credit exposures are located and establish procedures for a regular updating of these records.
- (3) The Croatian National Bank may adopt subordinate legislation to further regulate the method of calculating the institution-specific countercyclical buffer rate referred to in paragraph (1) of this Article.

Application of the countercyclical buffer rate in excess of 2.5%

Article 127

- (1) If, in accordance with Article 120, paragraph (2) of this Act, the Croatian National Bank sets a countercyclical buffer rate in excess of 2.5% of total risk exposure amount, credit institutions shall apply that countercyclical buffer rate to the relevant credit exposures located in the Republic of Croatia for the purposes of the calculation of institution-specific countercyclical buffer rate referred to in Article 126 of this Act.
- (2) If a designated authority of another Member State sets a countercyclical buffer rate in excess of 2.5% of total risk exposure amount, for the purposes of the calculation of institution-specific countercyclical buffer rate referred to in Article 126 of this Act, credit institutions shall apply the

following to the relevant credit exposures located in the Member State whose designated authority set that rate:

– a rate of 2.5% of total risk exposure amount, if the Croatian National Bank has not recognised the buffer rate in excess of 2.5% in accordance with Article 124 of this Act;

– a rate set by the designated authority of another Member State, if the Croatian National Bank has recognised that buffer rate in accordance with Article 124 of this Act.

(3) If a relevant third-country authority sets a countercyclical buffer rate in excess of 2.5% of total risk exposure amount, for the purposes of the calculation of institution-specific countercyclical buffer rate referred to in Article 126 of this Act, credit institutions shall apply the following to the relevant credit exposures located in the third country whose relevant authority set that rate:

– a rate of 2.5% of total risk exposure amount, if the Croatian National Bank has not recognised the buffer rate in excess of 2.5% in accordance with Article 124 of this Act;

– a rate set by the relevant third-country authority, if the Croatian National Bank has recognised that buffer rate in accordance with Article 124 of this Act.

(4) A credit institution shall apply the countercyclical buffer rate referred to in paragraphs (1) to (3) of this Article in the calculation of institution-specific countercyclical buffer rate referred to in Article 126 of this Act for the purposes of the calculation of the element of consolidated capital that relates to the credit institution in question.

Beginning of the application of a countercyclical buffer rate in the calculation of an institution-specific countercyclical buffer rate

Article 128

(1) If a countercyclical buffer rate for the Republic of Croatia and other Member States is increased, that rate shall be applied in the calculation of the institution-specific countercyclical buffer rate referred to in Article 126 of this Act from the date specified in the published decision referred to in Article 123, paragraph (1), item (5) of this Act or in the published decision referred to in Article 124, paragraph (2), item (3) of this Act.

(2) If a countercyclical buffer rate for a third country is increased, that rate shall be applied in the calculation of the institution-specific countercyclical buffer rate referred to in Article 126 of this Act 12 months after the date on which a change in the buffer rate was announced by the relevant third-country authority, irrespective of whether that authority requires credit institutions incorporated in that third country to apply the change within a shorter period.

(3) For the purposes of paragraph (2) of this Article, a change in the countercyclical buffer rate for a third country shall be considered to be announced on the date that it is published by the relevant third-country authority in accordance with the applicable national rules.

(4) By way of derogation from paragraph (2) of this Article, where a countercyclical buffer rate is increased and where the Croatian National Bank sets the countercyclical buffer rate for a third country in accordance with Article 125, paragraphs (1) and (2) of this Act or where it recognises the countercyclical buffer rate for a third country in accordance with Article 124 of this Act, that buffer rate shall be applied in the calculation of the institution-specific countercyclical buffer rate referred to in Article 126 of this Act from the date specified in the published decision referred to in Article 124, paragraph (2), item (3) or Article 125, paragraph (6) of this Act.

(5) Where a countercyclical buffer rate is reduced, that buffer rate shall be applied in the calculation of the institution-specific countercyclical buffer rate referred to in Article 126 of this Act from the date of the publication of the decision to reduce that rate.

VII.3 STRUCTURAL SYSTEMIC RISK BUFFER

General provisions

Article 129

(1) The Croatian National Bank shall adopt a decision to set the rate and method of maintaining a structural systemic risk buffer for all credit institutions or for one or more subsets of credit institutions in order to prevent and mitigate structural systemic risks not covered by Regulation (EU) No 575/2013.

(2) The Croatian National Bank may introduce the requirement to maintain a structural systemic risk buffer referred to in paragraph (1) of this Article only if structural systemic risks cannot be addressed by measures pursuant to this Act or Regulation (EU) No 575/2013, excluding Articles 458 and 459 of that Regulation.

(3) The Croatian National Bank shall be the authority in charge of setting the structural systemic risk buffer under Article 133, paragraph (2) of Directive 2013/36/EU for credit institutions.

Requirement to maintain a structural systemic risk buffer

Article 130

(1) Credit institutions shall be required to maintain a structural systemic risk buffer of common equity tier 1 capital in the amount and in the manner set by the Croatian National Bank.

(2) Credit institutions shall not use common equity tier 1 capital that is maintained to meet the requirement under paragraph (1) of this Article to meet any requirements imposed under Article 92 of Regulation (EU) No 575/2013, the requirement to maintain a capital conservation buffer referred to in Article 117 of this Act, the requirement to maintain a countercyclical capital buffer referred to in Article 118 of this Act or any requirements imposed under Articles 220, 224 and 228 of this Act.

(3) Where a credit institution fails to meet the requirement under paragraph (2) of this Article, it shall be subject to the provisions of Article 140, paragraphs (2), (3) and (5) and Article 143 of this Act. Where the application of those provisions does not lead to a satisfactory improvement of the common equity tier 1 capital of the credit institution in the light of the relevant structural systemic risk, the Croatian National Bank may take additional measures in accordance with this Act.

The method of setting a structural systemic risk buffer rate

Article 131

(1) The Croatian National bank shall set the rate referred to in Article 129, paragraph (1) of this Act equal to at least 1% of total risk exposure amount of a credit institution in the Republic of Croatia, another Member State or a third country to which a structural systemic risk buffer is applied, as multiples of 0.5 percentage points. The rate may be different for different subsets of credit institutions.

(2) Where the Croatian National Bank decides to set the structural systemic risk buffer up to 3% on the basis of exposures in other Member States, the buffer shall be set equally on all exposures located within those Member States.

(3) When requiring a structural systemic risk buffer to be maintained the Croatian National Bank shall take account that this buffer does not entail disproportionate adverse effects on the whole or parts of the financial system of other Member States or of the European Union as a whole forming or creating an obstacle to the functioning of the internal market.

(4) The Croatian National Bank shall review the structural systemic risk buffer at least every second year.

Procedure for setting a structural systemic risk buffer

Article 132

(1) Where the Croatian National Bank sets or resets a structural systemic risk buffer rate up to 3% of the total risk exposure amount of a credit institution in the Republic of Croatia, another Member State or a third country, it shall notify the European Commission, the European Systemic Risk Board, the European Banking Authority and the competent and designated authorities of the Member States concerned at least one month before it publishes a decision in accordance with Article 133 of this Act. If the buffer applies to exposures located in third countries, the Croatian National Bank shall also notify the competent authorities of those third countries.

(2) The notification referred to in paragraph (1) of this Article shall describe in detail:

1) the systemic or macroprudential risk in the Republic of Croatia;

2) the reasons why the dimension of the systemic or macroprudential risks threatens the stability of the financial system in the Republic of Croatia justifying the structural systemic risk buffer rate;

3) the justification for why the Croatian National Bank considers the proposed structural systemic risk buffer likely to be effective and proportionate to mitigate the risk;

4) an assessment of the likely positive or negative impact of the structural systemic risk buffer on the internal market, based on information which is available;

5) the justification for why none of the existing measures in this Act or in Regulation (EU) No 575/2013, excluding Articles 458 and 459 of that Regulation, alone or in combination, would be sufficient to address the identified macroprudential or systemic risk taking into account the relative effectiveness of those measures; and

6) the structural systemic risk buffer rate that the Croatian National Bank intends to prescribe.

(3) By way of derogation from paragraph (1) of this Article, for exposures located in the Republic of Croatia and third countries, the Croatian National Bank may set the structural systemic risk buffer rate between 3% and 5% of total risk exposure amount provided that it notifies the European Commission thereof and receives its opinion before adopting the measures in question. Where the opinion of the European Commission is negative, the Croatian National Bank shall adopt a decision in compliance with that opinion or give reasons for not so doing.

(4) Where the structural systemic risk buffer rate referred to in paragraph (3) of this Article applies to a subsidiary credit institution in the Republic of Croatia whose parent is established in another Member State, the Croatian National Bank shall notify the relevant authorities of that Member State, the European Commission and the European Systemic Risk Board.

(5) Where within one month of the notification referred to in paragraph (4) of this Article, the relevant authorities of the other Member State express disagreement with the proposed structural systemic risk buffer rate and where the European Commission and the European Systemic Risk Board issue a negative recommendation on the proposed measure within that period, the Croatian National Bank may not apply the proposed buffer but it may refer the matter to the European Banking Authority and request its assistance in accordance with Article 19 of Regulation (EU) No 1093/2010.

(6) The Croatian National Bank shall suspend the adoption of a decision on the buffer until the European Banking Authority has taken a decision referred to in paragraph (5) of this Article and shall adopt a decision accordingly.

(7) Where at least one of the authorities referred to in paragraph (5) of this Article does not express disagreement or does not issue a negative recommendation, the Croatian National Bank may apply the proposed structural systemic risk buffer.

(8) The Croatian National Bank may express disagreement when a relevant authority of another Member State notifies it of the structural systemic risk buffer referred to in paragraph (3) of this Article that applies to a subsidiary credit institution from that Member State whose parent is established in the Republic of Croatia.

(9) Where the Croatian National Bank intends to set or reset a structural systemic risk buffer rate for exposures located in the Republic of Croatia and third countries of above 5% of the total risk exposure amount or for exposures located in other Member States of above 3% of the total risk exposure amount, it shall notify in advance the European Commission, the European Systemic Risk Board, the European Banking Authority and the competent and designated authorities of the Member States concerned. If the buffer applies to exposures located in third countries, the Croatian National Bank shall also notify the competent authorities of those third countries.

(10) The notification referred to in paragraph (9) of this Article must contain all information referred to in paragraph (2) of this Article.

(11) The Croatian National Bank may apply the rate referred to in paragraph (9) of this Article after the European Commission adopts an implementing act authorising the implementation of that rate.

(12) The Croatian National Bank may adopt subordinate legislation to further regulate the method of identifying the geographical location of exposures for the purposes of maintaining a structural systemic risk buffer.

Announcement of a structural systemic risk buffer

Article 133

(1) After meeting the requirements for the application of the structural systemic risk buffer in accordance with Article 132 of this Act, the Croatian National Bank shall publish a decision on the application of the structural systemic risk buffer in the Official Gazette and announce it on its website. The announcement on the website shall include at least the following information:

- 1) the structural systemic risk buffer rate;
- 2) the credit institutions to which the structural systemic risk buffer applies;
- 3) a justification for the structural systemic risk buffer, except in cases where it could jeopardise the stability of the financial system;
- 4) the date from which the credit institutions must apply the setting or resetting of the structural systemic risk buffer; and
- 5) the names of the countries where exposures located in those countries are recognised in the structural systemic risk buffer.

(2) The decision referred to in paragraph (1) of this Article shall contain the structural systemic risk buffer rate, indication of the credit institutions to which the structural systemic risk buffer applies, the date from which it shall be applied and the names of the countries to which the structural systemic risk buffer applies.

Recognition of a structural systemic risk buffer rate

Article 134

(1) The Croatian National Bank may adopt a decision to recognise a structural systemic risk buffer rate set by the relevant authority of another Member State and may prescribe that this structural systemic risk buffer rate is to be applied by credit institutions for exposures located in that Member State.

(2) In the case referred to in paragraph (1) of this Article, the Croatian National Bank shall publish that decision in the Official Gazette and announce it on its website and shall notify the European Commission, the European Systemic Risk Board, the European Banking Authority and the relevant authority of the Member State which set the structural systemic risk buffer rate.

(3) When deciding whether to recognise a structural systemic risk buffer rate set by the relevant authority of another Member State, the Croatian National bank shall take into consideration the information presented by that Member State related to the setting of the structural systemic risk buffer rate.

(4) If it sets a structural systemic risk buffer rate, the Croatian National bank may ask the European Systemic Risk Board to issue a recommendation in accordance with Article 16 of Regulation (EU) No 1092/2010 to one or more Member States for recognition of that buffer rate for exposures located in the Republic of Croatia.

VII.4 BUFFERS FOR GLOBAL SYSTEMICALLY IMPORTANT CREDIT INSTITUTIONS AND OTHER SYSTEMICALLY IMPORTANT CREDIT INSTITUTIONS

Global systemically important credit institutions

Article 135

(1) The Croatian National Bank shall identify, on a consolidated basis, global systemically important credit institutions (G-SIIs), which it has authorised.

(2) The Croatian National Bank shall be the authority in charge of identifying G-SIIs under Article 131, paragraph (1) of Directive 2013/36/EU.

(3) G-SIIs may be the following systemically important entities whose distress or dissolution may create a global systemic risk:

- 1) an EU parent credit institution;
- 2) an EU parent financial holding company;
- 3) an EU parent mixed financial holding company; or

4) a credit institution which is not a subsidiary of an EU parent credit institution, an EU parent financial holding company or an EU parent mixed financial holding company.

(4) Each G-SII shall, on a consolidated basis, maintain a G-SII buffer which shall correspond to the sub-category referred to in Article 136, paragraph (4) of this Act to which the G-SII is allocated. That buffer shall consist of common equity tier 1 capital.

(5) Credit institutions shall not use common equity tier 1 capital that is maintained to meet the requirement under paragraph (3) of this Article to meet any requirements imposed under Article 92 of Regulation (EU) No 575/2013, the requirement to maintain a capital conservation buffer referred to in Article 117 of this Act, the requirement to maintain a countercyclical capital buffer referred to in Article 118 of this Act or any requirements imposed under Articles 220, 224 and 228 of this Act.

(6) The Croatian National Bank shall notify the names of the G-SIIs and the respective sub-category to which each G-SII is allocated to the European Commission, the European Systemic Risk Board and the European Banking Authority, and shall disclose this information to the public on its website.

(7) The Croatian National Bank shall by a decision identify G-SIIs and the sub-category referred to in Article 136, paragraph (4) of this Act to which each G-SII is allocated.

Identification methodology for G-SIIs

Article 136

(1) The identification methodology for G-SIIs shall be based on the following categories, each of which shall receive an equal weighting and shall consist of quantifiable indicators:

1) size of the group;

2) interconnectedness of the group with the financial system;

3) substitutability of the services or of the financial infrastructure provided by the group;

4) complexity of the group;

5) cross-border activity of the group, including cross-border activity between the Republic of Croatia and other Member States and between the Republic of Croatia and a third country.

(2) The methodology referred to in paragraph (1) of this Article shall produce an overall score for each entity referred to in Article 135, paragraph (3) of this Act that is being assessed, which allows G-SIIs to be identified and allocated into one of the five sub-categories as described in paragraph (3) of this Article.

(3) Based on the overall scores under the identification methodology for G-SIIs, the Croatian National Bank shall determine the lowest boundary and the boundaries between each sub-category. The cut-off scores between adjacent sub-categories shall be defined clearly and shall adhere to the principle that there is a constant linear increase of systemic significance between each sub-category, resulting in a linear increase in the requirement of additional common equity tier 1 capital, with the exception of the highest sub-category. Systemic significance is the expected impact exerted by the G-SII's distress on the global financial market.

(4) G-SIIs shall maintain a G-SII buffer in the amount of the following percentages of their total risk exposure amounts:

- 1) for the first sub-category, which is the lowest, of 1%;
- 2) for the second sub-category, of 1.5%;
- 3) for the third sub-category, of 2%;
- 4) for the fourth sub-category, of 2.5%; and
- 5) for the fifth sub-category, which is the highest, of 3.5%;

(5) Regardless of the results of the methodology referred to in this Article, the Croatian National Bank may, in the exercise of sound supervisory judgement:

- 1) re-allocate a G-SII from a lower sub-category to a higher sub-category;
- 2) allocate an entity as referred to in Article 135, paragraph (3) of this Act that has an overall score that is lower than the cut-off score of the lowest sub-category to that sub-category or to a higher sub-category, thereby designating it as a G-SII. Where the Croatian National Bank takes such decision, it shall notify the European Banking Authority accordingly and provide reasons.

(6) The Croatian National Bank shall review annually the identification of G-SIIs and the G-SII allocation into the respective sub-categories. The Croatian National Bank shall report the result to the G-SII concerned, to the European Commission, the European Systemic Risk Board and the European Banking Authority and shall disclose on its website the updated list of identified G-SIIs and the sub-category into which each identified G-SII is allocated.

Other systemically important credit institutions

Article 137

(1) The Croatian National Bank shall identify, on an individual, sub-consolidated or consolidated basis, as applicable, other systemically important credit institutions (O-SIIs), which it has authorised.

(2) The Croatian National Bank shall be the authority in charge of identifying O-SIIs under Article 131, paragraph (1) of Directive 2013/36/EU.

(3) O-SIIs may be the following systemically important entities whose distress or dissolution may create a systemic risk in the Republic of Croatia:

- 1) an EU parent credit institution;
- 2) an EU parent financial holding company;
- 3) an EU parent mixed financial holding company; or
- 4) a credit institution.

(4) The Croatian National Bank shall set an O-SII buffer rate, on a consolidated or sub-consolidated or individual basis, as applicable, between 0% and 2% of the total risk exposure amount, taking into account the criteria for the identification of the O-SII. That buffer shall consist of common equity tier 1 capital.

(5) Each O-SII shall maintain an O-SII buffer in the amount set by the Croatian National Bank.

(6) By way of derogation from paragraph (4) of this Article and Article 129 of this Act, where an O-SII is a subsidiary of either a G-SII or an O-SII which is an EU parent credit institution and subject to an O-SII buffer on a consolidated basis, the buffer that applies at individual or sub-consolidated level for the O-SII shall not exceed the higher of:

- 1) 1% of the total risk exposure amount; and
- 2) the G-SII or O-SII buffer rate applicable to the group at consolidated level.

(7) Credit institutions shall not use common equity tier 1 capital that is maintained to meet the requirement under paragraph (5) of this Article to meet any requirements imposed under Article 92 of Regulation (EU) No 575/2013, the requirement to maintain a capital conservation buffer referred to in Article 117 of this Act, the requirement to maintain a countercyclical capital buffer referred to in Article 118 of this Act or any requirements imposed under Articles 220, 224 and 228 of this Act.

(8) The Croatian National Bank shall notify the names of the O-SIIs to the European Commission, the European Systemic Risk Board and the European Banking Authority, and shall disclose this information to the public on its website.

(9) The Croatian National Bank shall by a decision identify O-SIIs and the buffer rate for each O-SII.

Identification methodology for O-SIIs

Article 138

(1) For the purposes of identifying O-SIIs, systemic importance shall be assessed on the basis of at least any of the following criteria:

- 1) size;
- 2) importance for the economy of the European Union or of the Republic of Croatia;
- 3) significance of cross-border activities; and
- 4) interconnectedness of the credit institution or the group with the financial system.

(2) When requiring an O-SII buffer to be maintained the Croatian National Bank shall comply with the following:

- 1) the O-SII buffer must not entail disproportionate adverse effects on the whole or parts of the financial system of other Member States or of the European Union as a whole forming or creating an obstacle to the functioning of the internal market;
- 2) the O-SII buffer must be reviewed by the Croatian National Bank at least annually.

(3) Before setting or resetting an O-SII buffer, the Croatian National Bank shall notify the European Commission, the European Systemic Risk Board, the European Banking Authority, and the competent and designated authorities of the Member States concerned one month before the publication of the decision referred to in Article 137, paragraph (4) of this Act. That notification shall describe in detail:

- 1) the justification for why the Croatian National Bank considers the proposed O-SII buffer likely to be effective and proportionate to mitigate the risk;
- 2) an assessment of the likely positive or negative impact of the O-SII buffer on the internal market, based on information which is available;
- 3) the O-SII buffer rate that the Croatian National Bank intends to prescribe.

(4) The Croatian National Bank shall review annually the identification of O-SIIs. The Croatian National Bank shall report the result to the O-SII concerned, to the European Commission, the European Systemic Risk Board and the European Banking Authority and shall disclose on its website the updated list of identified O-SIIs.

(5) The Croatian National Bank may adopt subordinate legislation to further specify the criteria and the manner of identifying O-SIIs.

VII.5 CORRELATION BETWEEN SYSTEMIC RISK BUFFERS

Correlation between a structural systemic risk buffer, a G-SII buffer and an O-SII buffer, and a combined buffer requirement

Article 139

(1) A G-SII or an O-SII shall, on a consolidated basis, be subject to the following buffers applicable to it on a consolidated basis:

- 1) to the higher of a G-SII buffer or an O-SII buffer; or
- 2) to the highest of a G-SII buffer, an O-SII buffer or a structural systemic risk buffer.

(2) By way of derogation from paragraph (1) of this Article, where the structural systemic risk buffer applies to all exposures located in the Republic of Croatia to address the macroprudential risk of the Republic of Croatia, but does not apply to exposures outside the Republic of Croatia, a G-SII or an O-SII shall, on a consolidated basis, be subject to the sum of the following buffers applicable to it on a consolidated basis:

- 1) the higher of the G-SII buffer and the O-SII buffer; and
- 2) the structural systemic risk buffer.

(3) Where an O-SII, on an individual or sub-consolidated basis, is subject to an O-SII buffer and a structural systemic risk buffer, the higher of the two shall apply.

(4) By way of derogation from paragraph (3) of this Article, where the structural systemic risk buffer applies to all exposures located in the Republic of Croatia to address the macroprudential risk of the Republic of Croatia, but does not apply to exposures outside the Republic of Croatia, an O-SII shall, on an individual or sub-consolidated basis, be subject to the sum of both buffers referred to in paragraph (3) of this Article.

(5) Where paragraphs (1) and (3) of this Article apply and a credit institution is part of a group or a sub-group to which a G-SII or an O-SII belongs, it shall, on an individual basis, be subject to a combined buffer requirement that is at least equal to the sum of the following buffers applicable to it on an individual basis:

- 1) a capital conservation buffer,
- 2) a countercyclical capital buffer, and
- 3) the higher of the O-SII buffer and structural systemic risk buffer.

(6) Where paragraphs (2) and (4) of this Article apply and a credit institution is part of a group or a sub-group to which a G-SII or an O-SII belongs, it shall, on an individual basis, be subject to a combined buffer requirement that is at least equal to the sum of the following buffers applicable to it on an individual basis:

- 1) a capital conservation buffer,
- 2) a countercyclical capital buffer,
- 3) an O-SII buffer, and
- 4) a structural systemic risk buffer.

(7) A credit institution which is not part of a group or a sub-group to which a G-SII or an O-SII belongs and which has been identified as an O-SII on an individual basis shall, on an individual basis, be subject to a combined buffer requirement that is at least equal to the sum of the following buffers applicable to it on an individual basis:

- 1) a capital conservation buffer,
- 2) a countercyclical capital buffer,
- 3) the higher of the O-SII buffer and structural systemic risk buffer.

(8) By way of derogation from paragraph (7) of this Article, where the structural systemic risk buffer applies to all exposures located in the Republic of Croatia to address the macroprudential risk of the Republic of Croatia, but does not apply to exposures outside the Republic of Croatia, a credit institution referred to in paragraph (7) of this Article shall, on an individual basis, be subject to a combined buffer requirement that is at least equal to the sum of the following buffers applicable to it on an individual basis:

- 1) a capital conservation buffer,
- 2) a countercyclical capital buffer,
- 3) an O-SII buffer, and
- 4) a structural systemic risk buffer.

(9) Credit institutions shall not use the same common equity tier 1 capital to meet a G-SII buffer requirement, an O-SII buffer requirement and a structural systemic risk buffer requirement.

VII.6 CAPITAL CONSERVATION MEASURES

Restrictions on distributions

Article 140

(1) A credit institution that meets the combined buffer requirement shall not make a distribution in connection with common equity tier 1 capital to an extent that would decrease its common equity tier 1 capital to a level where the combined buffer requirement is no longer met.

(2) A credit institution that fails to meet the combined buffer requirement shall calculate the maximum distributable amount in accordance with the subordinate legislation of the Croatian National Bank referred to in paragraph (6) of this Article and shall, without delay, notify the Croatian National Bank of that maximum distributable amount.

(3) The credit institution referred to in paragraph (2) of this Article shall not undertake any of the following actions before it has calculated the maximum distributable amount:

1) make a distribution in connection with common equity tier 1 capital;

2) create an obligation to pay variable remuneration or discretionary pension benefits or pay variable remuneration if the obligation to pay was created at a time when the institution failed to meet the combined buffer requirements; and

3) make payments on additional tier 1 instruments.

(4) For the purposes of paragraphs (1) and (3) of this Article, a distribution in connection with common equity tier 1 capital shall include the following:

1) a payment of cash dividends;

2) a distribution of fully or partly paid bonus shares or other capital instruments referred to in Article 26, paragraph (1), item (a) of Regulation (EU) No 575/2013;

3) a redemption or purchase by a credit institution of its own shares or other capital instruments referred to in Article 26, paragraph (1), item (a) of Regulation (EU) No 575/2013;

4) a repayment of amounts paid up in connection with capital instruments referred to in Article 26, paragraph (1), item (a) of Regulation (EU) No 575/2013; and

5) a distribution of items referred to in Article 26, paragraph (1), items (b) to (e) of Regulation (EU) No 575/2013.

(5) A credit institution that fails to meet its combined buffer requirement at least in the amount prescribed in this Act shall not distribute more than the maximum distributable amount calculated in accordance with paragraph (2) of this Article through any action referred to in paragraph (3) of this Article.

(6) The Croatian National Bank shall adopt subordinate legislation to further regulate the method of calculating the maximum distributable amount.

Payments subject to restrictions on distributions

The restrictions on distributions imposed by Article 140 of this Act shall only apply to payments that result in a reduction of common equity tier 1 capital or in a reduction of profits, and where a suspension of payment or failure to pay does not constitute an event of default or a condition for the commencement of proceedings under the provisions of this Act and other regulations governing the insolvency regime applicable to the credit institution.

Distributions in the case of failure to meet the combined buffer requirement

Article 142

(1) A credit institution that fails to meet the combined buffer requirement and intends to distribute any of its distributable profits or undertake an action referred to in Article 140, paragraph (3) of this Act shall notify the Croatian National Bank in advance and provide the following information:

1) the amount of capital maintained by the credit institution, subdivided as follows:

a) common equity tier 1 capital,

b) additional tier 1 capital,

c) tier 2 capital;

2) the amount of its interim and year-end profits;

3) the maximum distributable amount calculated in accordance with Article 140, paragraphs (2) and (6) of this Act;

4) the amount of distributable profits it intends to allocate between the following:

a) dividend payments,

b) share buybacks,

c) payments on additional tier 1 instruments,

d) the payment of variable remuneration or discretionary pension benefits, whether by creation of a new obligation to pay, or payment pursuant to an obligation to pay created at a time when the credit institution failed to meet its combined buffer requirements.

(2) A credit institution shall establish and maintain arrangements to ensure that the amount of distributable profits and the maximum distributable amount are calculated accurately, and shall be able to demonstrate that accuracy to the Croatian National Bank on request.

Capital conservation plan

Article 143

(1) A credit institution that fails to meet the combined buffer requirement shall prepare a capital conservation plan and submit it to the Croatian National Bank no later than five working days after it identified that it was failing to meet that requirement.

(2) By way of derogation from paragraph (1) of this Article, the Croatian National Bank may, on request of an individual credit institution, allow the credit institution to submit a capital conservation plan in up to 10 days taking into account the scale and complexity of the credit institution's activities.

(3) The capital conservation plan shall include the following:

1) estimates of income and expenditure and a forecast balance sheet;

2) measures to increase the capital ratios of the credit institution;

3) a plan and timeframe for the increase of own funds with the objective of meeting fully the combined buffer requirement.

(4) The Croatian National Bank may request any other information that it considers to be necessary to carry out the assessment required by paragraph (5) of this Article.

(5) The Croatian National Bank shall assess the capital conservation plan, and shall approve the plan only if it considers that the plan, if implemented, would be reasonably likely to conserve or raise sufficient capital to enable the credit institution to meet its combined buffer requirements within a period which the Croatian National Bank considers appropriate.

(6) If the Croatian National Bank does not approve the capital conservation plan in accordance with paragraph (5) of this Article, it shall impose one or both of the following:

1) require the credit institution to increase own funds to specified levels within specified periods;

2) exercise its powers under Article 220 of this Act to impose more stringent restrictions on distributions than those required by Articles 140 to 142 of this Act.

VII.7 REPORTING

Reporting

Article 144

The Croatian National Bank may adopt subordinate legislation to further regulate the method of and time limits for reporting on the capital buffers referred to in Articles 117, 118, 130, 135 and 137 of this Act and the capital conservation measures referred to in Articles 140 to 143 of this Act.

VIII OTHER EXPOSURES AND APPROVALS

Definition of exposure

Article 145

For the purposes of this Title, 'exposure' shall have the meaning as defined in Article 389 of Regulation (EU) No 575/2013.

Persons in a special relationship with a credit institution

Article 146

(1) Persons in a special relationship with a credit institution to whom an exposure would be incurred or increased are:

- 1) the credit institution's shareholders owning 5% or more of shares with voting rights at the credit institution's general meeting;
- 2) the members of the credit institution's management and supervisory board and its procurators;
- 3) persons who have concluded employment contracts with the credit institution the provisions of which imply that these persons have a significant influence over the operation of the credit institution or the contracts in which the remuneration for the work of these persons is determined in accordance with the special criteria, different from those applied to the persons who have concluded the standard employment contracts, where these persons are not referred to in item (1) or (2) of this paragraph; and
- 4) legal persons in which the credit institution holds a participation.

(2) Persons in a special relationship with a credit institution shall also be persons connected with such persons in the manner referred to in Article 3, item (12) of this Act.

(3) For the purposes of paragraph (1), item (1) of this Article, persons in a special relationship with a credit institution shall also include funds that are holders of the credit institution's shares.

Prior approval of the supervisory board

Article 147

(1) Prior approval of a credit institution's supervisory board shall be required before concluding a legal arrangement that might result in the credit institution's large exposure to a single person or group of connected clients. Prior approval of the supervisory board shall also be required before concluding a legal arrangement as a result of which the credit institution's large exposure to a single person or group of connected clients would increase so as to reach or exceed 15%, 20%, and each additional 5% of the credit institution's eligible capital.

(2) Prior approval of a credit institution's supervisory board shall be required for any legal arrangement as a result of which the credit institution would incur or increase its exposure to the persons referred to in Article 146 of this Act and for any change in the conditions under which the legal arrangement has been concluded.

(3) By way of derogation from paragraph (2) of this Article, prior approval of a credit institution's supervisory board shall not be required for any legal arrangement as a result of which the credit institution would incur or increase its exposure to the natural persons referred to in Article 146 of this Act, in so far as the legal arrangement is concluded pursuant to the conditions prescribed in the credit institution's general operating conditions.

Holdings of tangible assets

Article 148

(1) Credit institution's total holdings of tangible assets may not exceed 40% of the credit institution's own funds.

(2) Holdings that a credit institution acquired in exchange for its claims during the process of financial reconstruction, other than financial reconstruction under pre-bankruptcy proceedings, or in the course of bankruptcy or foreclosure proceedings, or through the realisation of collateral received pursuant to the Foreclosure Act, shall not be subject to the limits laid down in paragraph (1) of this Article for the first two years after acquisition.

Prior approval of the Croatian National Bank to acquire individual holdings

Article 149

(1) A credit institution shall obtain prior approval of the Croatian National Bank before establishing an undertaking or concluding a legal arrangement that would result in the gradual or immediate direct acquisition of a holding of 20% or more in another legal person, if the holding exceeds 10% of the credit institution's eligible capital.

(2) A credit institution shall obtain prior approval of the Croatian National Bank before establishing an undertaking or concluding a legal arrangement that would result in the direct acquisition of a majority holding in the capital or of a majority of the voting rights in another legal person.

(3) By way of derogation from paragraphs (1) and (2) of this Article, a credit institution shall not be required to obtain prior approval of the Croatian National Bank to conclude a legal arrangement that would result in the direct acquisition of shares or holdings it intends to hold in the trading book.

(4) A credit institution shall notify the Croatian National Bank of all changes in the activity of legal persons in which it has a majority holding in the capital or a majority of the voting rights prior to the entry of such activity in the register of companies. The credit institution shall notify the Croatian National Bank where a legal person in which it has a majority holding in the capital or a majority

of the voting rights adopts a decision to establish another legal person, and on the activities of that legal person, within eight days of the adoption of the decision on establishment.

(5) The following documents shall be enclosed with the application for the prior approval referred to in paragraphs (1) and (2) of this Article:

- 1) a detailed description of the legal arrangement to which the application refers;
- 2) a description of actions already taken by the applicant in relation to the legal arrangement to which the application refers;
- 3) a description of the effect of acquiring a majority holding in the capital or a majority of the voting rights on the existing operations of the applicant; and
- 4) a business plan with projected financial statements for the following three years.

IX SALE OF PLACEMENTS BY CREDIT INSTITUTIONS

Sale of placements by credit institutions

Article 150

(1) For the purposes of this Article, 'sale of placements' means any contract the purpose of which is to transfer a placement or risks and benefits arising from the placement from a selling credit institution (hereinafter in this Article referred to as 'seller') to the acquirer, which results in derecognition of the placement from the balance sheet of the credit institution in accordance with the International Financial Reporting Standards (hereinafter in this Article referred to as 'contract').

(2) The seller may conclude a contract if it meets the general conditions prescribed by the Croatian National Bank in subordinate legislation referred to in paragraph (7) of this Article.

(3) By way of derogation from paragraph (2) of this Article, the seller may conclude a contract concerning a material amount of placements if the contract meets the general and specific conditions prescribed by the Croatian National Bank in subordinate legislation referred to in paragraph (7) of this Article and if 60 days prior to concluding the contract the seller notifies the Croatian National Bank in writing that such conditions have been met and delivers complete documentation.

(4) The seller may return to its balance sheet a material amount of placements or risks and benefits arising from a material amount of placements under conditions prescribed by the Croatian National Bank in subordinate legislation referred to in paragraph (7) of this Article.

(5) The seller shall ensure that consumers whose placements are the subject matter of the contract are not put by the acquirer, or a third party to which the seller has transferred placements or risks and benefits arising from placements, in a less favourable position with regard to consumer protection than the position they held as debtors to the seller. The seller and the acquirer or the

third party to which placements have been further transferred shall be jointly liable for any damage to the consumers that may arise from their legally or factually less favourable position than the position they held as debtors to the seller. The provision of this paragraph shall apply to all contracts regardless of whether the amount of the placement concerned is material or not.

(6) The provisions of paragraphs (2) to (5) of this Article shall not apply to contracts concluded within measures imposed on credit institutions in financial difficulties by the Croatian National Bank or relevant administrative bodies, or measures taken by the special administration of a credit institution.

(7) The Croatian National Bank may adopt subordinate regulation to further regulate:

- the definition and scope of placements;
- the material amount of placements;
- conditions for the sale of placements and the return of placements to the seller's balance sheet;
- cases in which certain placements may be returned to the seller; and
- documentation that the credit institution shall deliver to the Croatian National Bank for the purpose of verifying compliance with the prescribed conditions.

X REPORTING TO THE CROATIAN NATIONAL BANK

Reporting

Article 151

(1) A credit institution shall report to the Croatian National Bank in accordance with this Act and regulations adopted under this Act, Regulation (EU) No 575/2013 and regulations adopted under that Regulation, as well as other regulations of the European Union governing the operation of credit institutions.

(2) A credit institution shall report to the Croatian National Bank the following without delay:

- 1) all facts to be entered in the register of companies and each submitted application for entry of data in the register of companies as well as all completed entries of data changes in the register of companies;
- 2) the convening of its general meeting and all decisions adopted at the meeting;
- 3) all planned changes in the credit institution's initial capital of 10% or more;
- 4) discontinuance of individual banking and/or financial services; and

5) on becoming aware of the fact that natural or legal persons acquired a qualifying holding or the holding referred to in Article 24 of this Act or that holders of a qualifying holding sold or otherwise disposed of their shares that caused holdings to exceed or fall below the threshold for which they obtained prior approval.

(3) In addition to the facts referred to in paragraph (2) of this Article, a credit institution shall submit reports about the following to the Croatian National Bank:

1) borrowers whose debt to the credit institution exceeds an amount laid down by the Croatian National Bank, for the purpose of notifying all credit institutions of such borrowers;

2) the credit institution's shareholders and persons connected with them holding 3% or more of shares with voting rights at the credit institution's general meeting;

3) close links between the credit institution and other natural and legal persons; and

4) the structure of groups of connected clients to whom the credit institution is exposed.

(4) Credit institutions whose shares are listed for trading on a regulated market shall, at least annually, inform the Croatian National Bank of the names of shareholders possessing qualifying holdings and the sizes of such holdings.

(5) A credit institution's management board shall notify the Croatian National Bank without delay if:

1) the liquidity or solvency of the credit institution is jeopardised;

2) reasons for expiry or revocation of authorisation or for revocation of authorisation to provide individual financial services arise;

3) the credit institution's financial position changes to the extent that its own funds fall below the level laid down in Article 92 of Regulation (EU) No 575/2013 or Articles 224 and 228 of this Act.

(6) The Croatian National Bank may adopt subordinate regulation to further regulate the content of the reports referred to in paragraphs (2) and (3) of this Article, along with time limits for and the method of reporting.

Benchmark remuneration trends

Article 152

The Croatian National Bank shall collect the information in accordance with Article 450, paragraph (1), items (g), (h) and (i) of Regulation (EU) No 575/2013 and shall use it to establish benchmark remuneration trends and practices of credit institutions.

Reporting at the request of the Croatian National Bank

Article 153

At the request of the Croatian National Bank a credit institution shall deliver reports and information on all matters relevant for the exercise of supervision or oversight and other tasks within the competence of the Croatian National Bank.

Recovery and resolution plans

Article 154

(1) A credit institution shall prepare and deliver to the Croatian National Banks a recovery plan for the restoration of a credit institution's financial situation following a significant deterioration within the time limits and in the manner laid down in subordinate legislation adopted under Article 101, paragraph (2), item (8) of this Act.

(2) In the subordinate legislation referred to in Article 101, paragraph (2), item (8) of this Act, the Croatian National Bank may regulate that the requirements for a credit institution regarding a scope and frequency of updating recovery plans may be reduced if the failure of a specific credit institution due to its size, to its business model, to its interconnectedness to other institutions, or to the financial system in general, would not have a negative effect on financial markets, on other institutions or on funding conditions.

(3) Before adopting the subordinate legislation referred to in Article 101, paragraph (2), item (8) of this Act, the Croatian National Bank shall consult the macroprudential authority of the Republic of Croatia with regard to the circumstances referred to in paragraph (2) of this Article.

(4) A credit institution shall cooperate closely with resolution authorities and shall provide them with all information necessary for the preparation of a viable resolution plan setting out options for the orderly resolution of the credit institution if its ongoing functioning is uncertain.

XI DEPOSIT INSURANCE

Insured deposits

Article 155

A credit institution authorised by the Croatian National Bank shall insure its deposits, including deposits received by its branches abroad, with the competent institution in the Republic of Croatia pursuant to a special law and regulations adopted under that law.

XII BANKING SECRECY

Banking secrecy

Article 156

(1) 'Banking secrecy' means a credit institution's obligation to protect the confidentiality of all information, facts and circumstances of which it becomes aware in the course of providing services to clients or in the course of business with individual clients. Credit institutions shall be bound by the obligation of banking secrecy.

(2) For the purposes of this Act, a credit institution's clients shall be all persons who requested or received banking and/or financial services from the credit institution.

Obligation of banking secrecy

Article 157

(1) Members of the credit institution's bodies, its shareholders or employees and other persons who, due to the nature of their business with or for the credit institution have access to confidential information, shall be bound by the obligation of banking secrecy. They may not divulge confidential information to third parties, use it against the interests of the credit institution or its clients, or enable third parties to make use of it.

(2) The persons referred to in paragraph (1) of this Article shall be bound by the obligation of banking secrecy even after the termination of their employment with the credit institution or after the termination of their status of shareholders or membership in the credit institution's bodies, as well as after the termination of their contract on the performance of activities for the credit institution.

(3) The credit institution's obligation of banking secrecy shall not include the following cases:

1) where the client explicitly agrees in writing that certain confidential information may be disclosed;

2) where this enables the credit institution to realise its interest when exercising the sale of client's receivables;

3) where confidential information is disclosed to the Croatian National Bank, the Financial Inspectorate of the Republic of Croatia or another supervisory authority for the purposes of supervision or oversight within their competence;

4) where confidential information is exchanged within a group of credit institutions for the purpose of risk management;

5) where confidential information is disclosed to a legal person established pursuant to a special law to collect and disseminate information on the creditworthiness of legal and natural persons;

6) where confidential information on clients who defaulted on their obligations is disclosed to a legal person who collects and disseminates such information among credit and/or financial institutions;

7) where the disclosure of confidential information is essential for collecting and establishing facts in criminal or preliminary proceedings, when requested or ordered in writing by the competent court;

8) where the disclosure of confidential information is necessary to carry out foreclosure or bankruptcy proceedings over the property of a client, legacy proceedings or other property-rights proceedings, and such disclosure is requested or ordered in writing by the competent court or public notary in the course of performing the functions entrusted to them pursuant to law;

9) where the interests or obligations of a credit institution or its client require the disclosure of confidential information to establish the legal relationship between the credit institution and the client in court proceedings, arbitration proceedings or conciliation proceedings;

10) where confidential information is disclosed to the Office for the Prevention of Money Laundering pursuant to the law governing the prevention of money laundering and terrorist financing;

11) where confidential information is disclosed to the Office for the Prevention of Corruption and Organised Crime pursuant to the law governing the prevention of corruption and organised crime;

12) where confidential information is required by the tax authorities in procedures carried out within the framework of their competence under law, and is disclosed at their written request;

13) where confidential information is disclosed to the institution responsible for deposit insurance pursuant to the law governing deposit insurance;

14) where the account balance reflects inability to effect payments and the certificate is requested to substantiate the existence of grounds for bankruptcy;

15) disclosure of information to insurance undertakings within the procedure of insuring the credit institution's receivables;

16) disclosure of information in the course of concluding legal arrangements which have the effect of insuring the credit institution's receivables, such as derivative credit instruments, bank guarantees and similar arrangements;

17) disclosure of information, subject to written consent of the credit institution's management board, to a holder of a qualifying holding in the credit institution, to a person intending to acquire a qualifying holding in the credit institution, to a person to whom the credit institution is merged by acquisition or with whom the credit institution merges by formation of a new credit institution, to a legal person intending to take over the credit institution as well as to auditors, legal and other experts authorised by a holder of a qualifying holding or a potential holder;

18) disclosure of information necessary for the exercise of the credit institution's activities which are subject to outsourcing, where information is disclosed to the providers of outsourced activities;

19) where a credit institution which provides services of storing and administering financial instruments for the account of clients, including custody services, discloses information on the holder of securities to a credit institution which is the issuer of these non-material securities at its request;

20) where confidential information is disclosed to social welfare centres at their written request, within the framework of their competence under law and for the purpose of taking measures to protect the rights of children (persons under 18) and persons under guardianship;

21) where requested in writing by a State Attorney's Office of the Republic of Croatia or where a State Attorney's Office of the Republic of Croatia orders the Ministry of the Interior in writing to collect information in preliminary proceedings;

22) where confidential information is disclosed to a co-debtor, pledgor, guarantor or another participant in the credit relationship, and only information on that credit relationship;

23) where confidential information is disclosed at written request to a person who incorrectly paid funds to an account of a credit institution's client, and only information necessary to initiate court proceedings for the repayment of incorrectly paid funds; and

24) where so provided in other laws.

(4) Disclosure of confidential information shall not be considered to include:

1) disclosure of information in collective form, such that personal or business data on a client cannot be identified; and

2) disclosure of public information from the unified register of accounts.

(5) The credit institution shall ensure that when concluding each individual contract on the provision of banking and/or financial services, the client's explicit agreement in writing referred to in paragraph (3), item (1) of this Article is given in a separate document.

(6) Where confidential information is exchanged on the basis of a written agreement of the client referred to in paragraph (3), item (1) of this Article or in accordance with paragraph (3), item (6) of this Article, the credit institution shall ensure that the following conditions are met:

– the information being disclosed is correct, complete and up-to-date;

– the client is provided access to his/her information being disclosed;

– the extent of the information thus exchanged is not larger than necessary for the purpose for which it is being exchanged; and

– the information thus received is kept for a period not longer than necessary for the purpose for which it is being disclosed.

(7) The Croatian National Bank may adopt subordinate legislation to further regulate the conditions referred to in paragraph (6) of this.

Use and protection of confidential information

Article 158

(1) The Croatian National Bank, courts, other supervisory authorities and other persons referred to in Article 157, paragraph (3) of this Act, shall use the confidential information they have received under the same Article exclusively for the purpose for which it has been given and may not divulge it to third parties or enable third parties to acquire and make use of such information, except in cases prescribed by law.

(2) The provision of paragraph (1) of this Article shall also apply to all natural persons who work or have worked for the Croatian National Bank, courts, other supervisory authorities or other persons referred to in Article 157, paragraph (3) of this Act in the capacity of employees or other capacities.

XIII BUSINESS BOOKS AND FINANCIAL STATEMENTS

Application of other laws and standards

Article 159

(1) A credit institution shall keep business books, other business documentation and records, evaluate assets and liabilities and prepare and publish annual financial statements and annual reports in accordance with applicable regulations and professional standards.

(2) A credit institution shall keep business books and other business documentation and records in such a manner that it is possible to verify at all times whether the credit institution operates in accordance with applicable regulations and professional standards.

Bookkeeping documents

Article 160

(1) A credit institution shall prepare, check and store bookkeeping documents in accordance with applicable regulations and professional standards.

(2) By way of derogation from paragraph (1) of this Article, a credit institution shall store for a period of at least eleven years:

1) documents relating to the opening, closing and recording of changes in payment accounts and deposit accounts;

2) documents relating to other changes not covered by item (1) of this paragraph on the basis of which data have been entered in the credit institution's business books; and

3) contracts and other documents relating to the establishment of a business relationship.

(3) The time limit referred to in paragraph (2) of this Article shall mean the period following the end of the year in which the business change occurred, i.e. in which bookkeeping documents were prepared. Where such documents relate to long-term business activities, they shall be kept for the duration of the business relationship and at least eleven years following the end of the year in which the business relationship was terminated.

(4) A credit institution shall store business books for at least eleven years.

Chart of accounts

Article 161

(1) The Croatian National Bank may adopt subordinate legislation governing a chart of accounts for credit institutions.

(2) A credit institution shall follow the chart of accounts referred to in paragraph (1) of this Article.

Regulations on statements and reports

Article 162

(1) The Croatian National Bank may adopt subordinate regulation to further regulate:

1) the form and content of a credit institution's annual financial statements and consolidated annual financial statements to be delivered to the Financial Agency for the purposes of inclusion in the Register of annual financial statements;

2) the form and content of a credit institution's financial statements and other reports for the purposes of the Croatian National Bank, and the method of and time limits for their delivery to the Croatian National Bank; and

3) the form and content of a credit institution's annual report and consolidated annual report and time limits for their public disclosure and delivery to the Croatian National Bank.

(2) The Croatian National Bank may adopt subordinate legislation to further regulate the scope and content of financial statements and other data provided by branches of credit institutions of other Member States, and the method of and time limits for disclosure or delivery of such statements and other data to the Croatian National Bank.

(3) The Croatian National Bank may adopt subordinate legislation to further regulate the scope and content of financial statements and other data provided by branches of third-country credit

institutions, and the method of and time limits for disclosure or delivery of such statements and other data to the Croatian National Bank.

Delivery of statements and reports to the Croatian National Bank and their disclosure

Article 163

(1) A credit institution shall deliver to the Croatian National Bank the following reports within 15 days of receipt of the audit report and at the latest within four months following the end of the business year to which the annual financial statements relate:

1) a report on the audit of annual financial statements referred to in Article 168 of this Act, including such financial statements; and

2) annual and consolidated annual reports, in accordance with the regulations governing the content of such reports.

(2) For the purpose of paragraph (1) of this Article, a business year shall correspond to a calendar year.

(3) A credit institution shall publish its audited unconsolidated annual financial statements together with its annual report on its website and make them available at the latest within five months following the end of the business year to which the statements relate.

(4) A parent credit institution shall publish its audited consolidated annual financial statements and a consolidated annual report of a group as laid down in the Accounting Act in the manner and within the time limit referred to in paragraph (3) of this Article.

(5) A branch of a credit institution of another Member State and a branch of a third-country credit institution shall publish audited annual financial statements and audited consolidated annual financial statements of their founder and annual reports of their founder, including audit reports, on their websites in the Croatian language at the latest within 15 days of the expiry of the time limit for disclosure in the country where the founder has its head office.

(6) The statements referred to in paragraph (5) of this Article shall be prepared and audited in accordance with the regulations of the country where the founder has its head office.

Delivery of information to the Croatian National Bank and their disclosure

Article 164

(1) Within the time limit referred to in Article 163, paragraph (1) of this Act, a credit institution shall deliver to the Croatian National Bank the following information relating to the preceding financial year:

- 1) banking and financial services it provides, the nature of its activities and their geographical location;
- 2) total turnover;
- 3) number of employees on a full time equivalent basis;
- 4) profit or loss before tax;
- 5) tax on profit or loss; and
- 6) public subsidies received.

(2) The information referred to in paragraph (1) of this Article shall be audited and published as attachment to annual financial statements and, where applicable, consolidated annual financial statements.

(3) A credit institution shall disclose the information referred to in paragraph (1) of this Article specified by Member States and by third country, where applicable.

XIV PUBLIC DISCLOSURE

Method of and time limits for public disclosure

Article 165

(1) Credit institutions shall publish information referred to in Part Eight of Regulation (EU) No 575/2013 on their websites.

(2) The Croatian National Bank may adopt subordinate regulation to further regulate the frequency of and time limits for public disclosure of information referred to in Part Eight of Regulation (EU) No 575/2013 and impose a requirement of more frequent reporting than annually.

Public disclosure of governance information

Article 166

(1) Credit institutions shall disclose to the public the manner in which they comply with the provisions on:

1) the organisational structure in the manner prescribed in Article 102 of this Act and subordinate legislation adopted under Article 101, paragraph (2) of this Act;

2) the composition, duties and responsibilities of the management and supervisory board prescribed in Articles 35 to 49 of this Act;

3) the obligation of the supervisory board to establish a remuneration committee, a nomination committee and a risk committee in the manner prescribed in Articles 50 to 53 of this Act and subordinate legislation adopted under Article 50, paragraph (6) of this Act;

4) remuneration policies in the manner prescribed in subordinate legislation adopted under Article 101, paragraph (2), item (5) of this Act.

(2) Credit institutions shall publish and regularly update information referred to in this Article on their websites.

(3) The Croatian National Bank may adopt subordinate legislation to further regulate the frequency of and time limits for public disclosure of information referred to in this Article.

Public disclosure of organisational information

Article 167

(1) An RC parent credit institution shall publish a description of the legal relationships within its group of credit institutions in the Republic of Croatia and a description of governance arrangements and organisational structure of its group of credit institutions in the Republic of Croatia. Instead of a detailed description, a credit institution may provide references to already published, equivalent information.

(2) Credit institutions shall disclose in their annual report among the key indicators their return on assets, calculated as their net profit divided by their total balance sheet.

(3) Credit institutions shall publish and regularly update information referred to in this Article on their websites.

(4) The Croatian National Bank may adopt subordinate legislation to further regulate the frequency of and time limits for public disclosure of information referred to in this Article.

XV RELATIONSHIP BETWEEN THE CROATIAN NATIONAL BANK AND EXTERNAL AUDITORS

Audit requirements

Article 168

(1) An audit of the annual financial statements of a credit institution, consolidated annual financial statements of a group of credit institutions in the Republic of Croatia, and of consolidated annual financial statements of the whole group, where group members include non-financial institutions, shall be carried out for each year of business.

(2) The audit referred to in paragraph (1) of this Article shall be carried out in accordance with the laws governing accounting and auditing, unless otherwise provided for in this Act and regulations adopted under this Act.

Appointment of an audit firm

Article 169

(1) At the credit institution's general meeting, an audit firm shall be appointed to audit the financial statements for the business year. The audit firm must be appointed by 30 September of the business year in question at the latest.

(2) The credit institution's management board shall deliver a decision to appoint an audit firm to the Croatian National Bank within eight days of the adoption of the decision.

(3) The contract on the audit of financial statements for each year of business must be concluded in writing.

(4) An audit firm shall, by 31 October of the current year, deliver to the Croatian National Bank an audit plan for the business year in question for each credit institution which has entrusted it with the carrying out of audit, indicating the areas of operation in which audits will be carried out and the methodology of the audits planned by individual area, as well as the envisaged duration of audit.

Restrictions on audit firms

Article 170

(1) An audit firm may audit the financial statements of a particular credit institution for no more than seven consecutive years.

(2) An audit of the credit institutions' financial statements shall be carried out by two or more natural persons employed with an audit firm and certified for carrying out audits (hereinafter referred to as 'certified auditors').

(3) An audit firm may neither carry out nor be entrusted by a credit institution with auditing the credit institution's financial statements if in the preceding year the audit firm in question derived more than half of its gross income from auditing the financial statements of that credit institution or the group of credit institutions of which that credit institution is a member.

(4) An audit of the credit institution's financial statements and an audit for the purposes of the Croatian National Bank shall be carried out by the same audit firm.

(5) Exceptionally, in the case referred to in Article 174, paragraph (4), item (2) of this Act, an audit of the credit institution's financial statements and an audit for the purposes of the Croatian National Bank may be carried out by two different audit firms.

Protection of auditor independence

Article 171

(1) In the event of the termination of a contract on the audit of a credit institution's financial statements, the credit institution and the audit firm shall explain in writing the reasons for the termination to the Croatian National Bank.

(2) An audit firm may not carry out an audit of a credit institution's financial statements if, in the year to which these statements relate, it provided services to the credit institution in question in the field of finance, accounting, internal audit, services related to the valuation of the credit institution, its assets and liabilities, tax-related and other business consulting services or expert opinion services.

(3) The prohibition on the provision of audit services referred to in paragraph (2) of this Article shall refer to all undertakings connected with the credit institution or audit firm in question.

Obligations of audit firms

Article 172

(1) Following an audit, an audit firm shall prepare a letter of recommendations to the management board and shall deliver it to the credit institution's management board and to the Croatian National Bank.

(2) An audit firm shall notify the Croatian National Bank in writing and without delay if it finds:

1) illegalities or facts and circumstances that could in any way jeopardise the ongoing functioning of the credit institution;

2) circumstances constituting the reasons for revocation of authorisation referred to in Article 69, paragraphs (1) and (2) of this Act;

3) a material difference in the assessment of risks inherent in the credit institution's operation and the valuation of its on- and off-balance sheet items and profit and loss account items;

4) material breaches of internal bylaws;

5) major weaknesses in the organisation of internal control systems or failures in the implementation of internal control systems; or

6) facts that could result in a qualified opinion, an adverse opinion or a disclaimer of an opinion on the financial statements.

(3) An audit firm shall notify the Croatian National Bank in writing of any of the facts referred to in paragraph (2) of this Article of which it becomes aware in the course of the audit of financial statements of an undertaking controlled by the credit institution.

(4) The delivery to the Croatian National Bank of the information referred to in paragraphs (1) to (3) of this Article shall not constitute a breach of the auditor's duty to protect the confidentiality of information arising under the law governing audits or arising under the contract.

Refusal of audit reports

Article 173

(1) Where an audit firm carries out an audit of a credit institution's financial statements contrary to Article 170 or 171 of this Act, the Croatian National Bank shall not accept the report on the audit of the credit institution's financial statements for that year.

(2) Where the Croatian National Bank establishes that the audit of financial statements has not been carried out or that the audit report has not been prepared in accordance with this Act, subordinate legislation adopted under this Act, the law governing audits and rules of the auditing profession or where, in the course of the supervision of the credit institution's operation or in any other way, it establishes that the audit opinion on the credit institution's financial statements referred to in Article 168 of this Act is not based on true and objective facts, it may refuse the audit report and require the credit institution that the audit be carried out by certified auditors of a different audit firm at the expense of the credit institution.

(3) Refusal of the report on the audit of the credit institution's financial statements shall result in the refusal of the assessment referred to in Article 174 of this Act.

(4) In the case referred to in paragraph (3) of this Article, the Croatian National Bank shall not accept audit reports from the audit firm whose audit report has been refused for the next two calendar years.

(5) The Croatian National Bank shall adopt subordinate legislation to further specify the reasons for the refusal of the audit report referred to in paragraph (2) of this Article.

Audit for the purposes of the Croatian National Bank

Article 174

(1) For the purposes of the Croatian National Bank, an audit firm shall provide an assessment of:

1) compliance with risk management rules;

2) the operations of the risk control function, the compliance function and the internal audit function;

3) the state of the information system and the adequacy of information system management; and

4) the regularity, accuracy and completeness of the reports delivered to the Croatian National Bank.

(2) The assessment referred to in paragraph (1) of this Article shall be descriptive and range from completely satisfactory to completely unsatisfactory (completely satisfactory, satisfactory, unsatisfactory, and completely unsatisfactory).

(3) The Croatian National Bank may require the audit firm to provide additional information concerning the audit carried out.

(4) Where the Croatian National Bank establishes that the assessment has not been made in accordance with this Act, subordinate legislation adopted under this Act, the law governing audits and rules of the auditing profession or where, in the course of the supervision of the credit institution's operation or in any other way, it establishes that the assessment is not based on true and objective facts, it may:

1) require the auditor to correct or supplement the assessment; or

2) refuse the assessment and require the credit institution to obtain another assessment by certified auditors of a different audit firm at the expense of the credit institution.

(5) Refusal of the assessment referred to in paragraph (1) of this Article shall not result in the refusal of the report on the audit of the credit institution's financial statements for that year if the report on the audit of the credit institution's financial statements has been accepted by the Croatian National Bank.

(6) The Croatian National Bank may adopt subordinate legislation to further regulate the methodology of the audit for the purposes of the Croatian National Bank as well as the reasons for the refusal of the assessment referred to in paragraph (1) of this Article.

XVI SUPERVISION OF CREDIT INSTITUTIONS

XVI.1 GENERAL PROVISIONS

Supervision

Article 175

(1) For the purposes of this Act, 'supervision' means verification of whether a credit institution operates in accordance with risk management rules, other provisions of this Act and Regulation (EU) No 575/2013 and regulations adopted under this Act and Regulation, other laws governing the provision of banking and financial services by credit institutions, regulations adopted under these laws, as well as other regulations of the European Union governing the operation of credit institutions, own rules, and professional standards and rules, including the evaluation process of the credit institution.

(2) The Croatian National Bank shall be competent to exercise supervision of credit institutions by:

1) collecting and analysing reports and information, ongoing monitoring of the operation of credit institutions and other persons required to report to the Croatian National Bank pursuant to this Act and regulations adopted under this Act, other laws and regulations adopted under these laws or applicable regulations of the European Union;

2) carrying out on-site examinations of credit institutions' operation;

3) imposing supervisory measures; and

4) issuing opinions, authorisations and approvals and assessing credit institutions in accordance with this Act, Regulation (EU) No 575/2013, as well as other regulations of the European Union governing the operation of credit institutions.

(3) The Croatian National Bank shall adopt subordinate legislation to further regulate the conditions and methods of exercising supervision, the content of a supervisory examination programme, the conditions and methods of imposing supervisory measures, as well as obligations of the credit institution's bodies in the course of and following supervision exercised by the Croatian National Bank.

Main objectives of supervision

Article 176

The main objectives of supervision exercised by the Croatian National Bank shall be to maintain confidence in the Croatian banking system, and promote and safeguard its safety and stability.

Oversight of the implementation of other laws

Article 177

(1) In addition to supervision, the Croatian National Bank shall exercise oversight of credit institutions with regard to the implementation of the Act on the Croatian National Bank, regulations adopted under that act, and other laws and regulations for which it is competent under these laws.

(2) The provisions of this Title shall apply *mutatis mutandis* to the exercise of procedures referred to in paragraph (1) of this Article.

Entities subject to supervision

Article 178

(1) The following entities shall be subject to supervision:

1) credit institutions with head offices in the Republic of Croatia and their branches outside the Republic of Croatia;

2) branches of credit institutions with head offices in other Member States operating in the Republic of Croatia;

3) branches of credit institutions with head offices in third countries operating in the Republic of Croatia; and

4) credit institutions of the Member States in respect of their direct provision of services within the territory of the Republic of Croatia.

(2) For the purpose of supervising a credit institution, authorised persons of the Croatian National Bank may carry out examinations of the part of operation of persons having close links with the credit institution in question or persons to whom the credit institution has transferred a significant part of its business activities.

(3) Supervision of the operation of credit institutions may also be exercised by other institutions and supervisory authorities within the framework of their competence under law.

(4) Where a different supervisory authority is responsible for the supervision of one of the persons referred to in paragraph (2) of this Article, the Croatian National Bank may participate in the supervision of that person's operations with the respective supervisory authority or may require from that supervisory authority the data and information which would be relevant for the supervision of the credit institution in question.

(5) All provisions on the supervision of credit institutions shall apply *mutatis mutandis* to the supervision of credit institutions' representative offices operating within the territory of the Republic of Croatia.

(6) The provisions of paragraph (1) of this Article shall not preclude the exercise of supervision on a consolidated basis in accordance with this Act.

Collection of information by the Croatian National Bank

Article 179

(1) Holders of qualifying holdings and persons having close links with a credit institution or persons to whom a credit institution has transferred a significant part of its business activities shall, at the request of the Croatian National Bank, deliver to it appropriate reports and information which would be relevant for the purpose of supervising the credit institution in question.

(2) For the purpose of exercising its powers, the Croatian National Bank may require the following persons to provide information, including information to be provided at recurring intervals and in specified formats:

- 1) credit institutions established in the Republic of Croatia;
- 2) financial holding companies established in the Republic of Croatia;
- 3) mixed financial holding companies established in the Republic of Croatia;
- 4) mixed-activity holding companies established in the Republic of Croatia;
- 5) persons belonging to the entities referred to in items (1) to (4) of this paragraph;
- 6) third parties to whom the entities referred to in items (1) to (4) of this paragraph have outsourced operational functions or activities.

(3) To establish facts and circumstances regarding a person referred to in paragraph (2) of this Article, the Croatian National Bank may take the following actions, where necessary:

- 1) require the submission of documents from any legal or natural person for which the Croatian National Bank deems that it possesses relevant knowledge;
- 2) examine business books and documentation of any person referred to in paragraph (1) of this Article, including the taking of copies of such books and documentation;
- 3) require written and oral explanations from any person referred to in paragraph (1) of this Article, including their employees;
- 4) interview any other person who explicitly consents to be interviewed for the purpose of collecting information and for whom the Croatian National Bank deems that it possesses relevant knowledge.

(4) The Croatian National Bank may in particular request a written report or statement on the matters referred to in Article 153 of this Act from members of the credit institution's management or supervisory board or from other employees of the credit institution. In the request, the Croatian National Bank shall specify the time limit for the preparation of these reports which may not be shorter than three days.

(5) The Croatian National Bank may, subject to the other conditions set out in the regulations of the European Union, carry out an on-site examination of a person referred to in paragraph (2) of this Article and, subject to the prior notification of the competent authorities concerned, any other undertaking included in supervision on a consolidated basis where the Croatian National Bank is the consolidating supervisor, at the head office and in other localities in which that person operates.

(6) The Croatian National Bank shall obtain appropriate authorisation by a judicial authority to carry out an on-site examination referred to in paragraph (5) of this Article if such authorisation is required under national law of the country where the on-site examination is carried out.

XVI.2 SUPERVISION OF CREDIT INSTITUTIONS WITH HEAD OFFICES IN THE REPUBLIC OF CROATIA

Scope of supervision of credit institutions

Article 180

(1) In the course of supervision, the Croatian National Bank shall verify the legality of the credit institution's operation, including the organisational structure, strategies, policies, processes and procedures adopted by the credit institution to comply with regulations and shall evaluate:

- a) risks to which the credit institution is or might be exposed;
- b) risks that the credit institution poses to the financial system taking into account the identification and measurement of systemic risk under Article 23 of Regulation (EU) No 1093/2010, or recommendations of the European Systemic Risk Board, where appropriate; and
- c) risks revealed by stress testing taking into account the nature, scale and complexity of a credit institution's activities.

(2) On the basis of the supervision referred to in paragraph (1) of this Article, the Croatian National Bank shall determine whether the organisational structure, strategies, policies, processes and procedures implemented by the credit institution and the own funds and liquidity held by it ensure an adequate management and coverage of its risks.

(3) In establishing the frequency and intensity of the supervision referred to in paragraph (1) of this Article, the Croatian National Bank shall take into account the size and systematic importance of the credit institution, the nature, scale and complexity of the activities of the credit institution concerned and the principle of proportionality.

(4) The Croatian National Bank shall carry out the supervision referred to in paragraph (1) of this Article at least annually for each credit institution covered by the supervisory examination programme referred to in Article 182 of this Act.

(5) For the purposes of supervision, the Croatian National Bank shall carry out appropriate stress tests on credit institutions at least annually.

Technical criteria for supervision

Article 181

(1) In addition to credit, market and operational risks and their management, the supervision exercised by the Croatian National Bank shall include at least:

- 1) the results of the stress test carried out in accordance with Article 177 of Regulation (EU) No 575/2013 by credit institutions applying an internal ratings based approach;

- 2) the exposure to and management of concentration risk by credit institutions, including their compliance with the requirements set out in Part Four of Regulation (EU) No 575/2013 and the regulation adopted under Article 101, paragraph (2), item (1) of this Act;
- 3) the robustness, suitability and manner of application of the policies and procedures implemented by credit institutions for the management of the residual risk associated with the use of recognised credit risk mitigation techniques;
- 4) the extent to which the own funds held by a credit institution in respect of assets which it has securitised are adequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved;
- 5) the exposure to and management of liquidity risk by credit institutions, including the development of alternative scenario analyses, the management of risk mitigants (in particular the level, composition and quality of liquidity buffers) and effective contingency plans;
- 6) the impact of diversification effects and how such effects are factored in the risk measurement system;
- 7) the results of stress tests carried out by credit institutions using an internal model to calculate market risk own funds requirements under Part Three, Title IV, Chapter 5 of Regulation (EU) No 575/2013;
- 8) the geographical location of credit institutions' exposures;
- 9) the business model of the credit institution; and
- 10) the assessment of systemic risk, in accordance with Article 180 of this Act.

(2) For the purposes of supervision referred to in paragraph (1), item (5) of this Article, the Croatian National Bank shall regularly carry out a comprehensive assessment of the overall liquidity risk management by credit institutions and promote the development of sound internal methodologies, having regard to the role played by credit institutions in the financial markets. The Croatian National Bank shall monitor developments in relation to liquidity risk profiles, for example product design and volumes, risk management, funding policies and funding concentrations. The Croatian National Bank shall take effective action where such developments may lead to individual institution or systemic instability.

(3) If, in the course of supervision, it is found that a credit institution has provided implicit support to a securitisation on more than one occasion, the Croatian National Bank shall impose supervisory measures on that credit institution reflective of the increased expectation that it will provide future support to its securitisation thus failing to achieve a significant transfer of risk.

(4) For the purposes of the determination to be made under Article 180, paragraph (3) of this Act, the Croatian National Bank shall consider whether the valuation adjustments taken for positions or portfolios in the trading book, as set out in Article 105 of Regulation (EU) No 575/2013, enable

the credit institution to sell or hedge out its positions within a short period without incurring material losses under normal market conditions.

(5) In the course of supervision, in addition to the requirements referred to in paragraph (1) of this Article, the Croatian National Bank shall include the following:

1) the exposure of credit institutions to the interest rate risk arising from non-trading activities. If it establishes that, as a result of a sudden and unexpected change in interest rates of 200 basis points or such change as defined in the guidelines of the European Banking Authority, the economic value of the credit institution declines by more than 20% of its own funds, the Croatian National Bank shall impose supervisory measures on that credit institution;

2) the exposure of credit institutions to the risk of excessive leverage as reflected by indicators of excessive leverage, including the leverage ratio determined in accordance with Article 429 of Regulation (EU) No 575/2013. In determining the adequacy of the leverage ratio of credit institutions and of the organisational structure, strategies, policies, processes and procedures implemented by credit institutions to manage the risk of excessive leverage, the Croatian National Bank shall take into account the business model of those institutions;

3) governance arrangements of credit institutions, their corporate culture and values, and the ability of members of the management and supervisory board to perform their duties. Credit institutions shall provide the Croatian National Bank access to agendas and supporting documents for meetings of the management and supervisory board and supervisory board committees. Credit institutions shall also provide the Croatian National Bank access to the results of the internal or external evaluation of performance of the management and supervisory board members.

Supervisory examination programme

Article 182

(1) In accordance with the scope of supervision referred to in Article 180 of this Act, the Croatian National Bank shall, at least annually, adopt a supervisory examination programme for the credit institutions it supervises.

(2) Where it deems it necessary on the basis of the supervision referred to in Article 180 of this Act, the Croatian National Bank shall carry out enhanced supervision of a credit institution, among other things, so as to:

1) increase the number and frequency of on-site examinations of the credit institution;

2) appoint a trustee in accordance with the provisions of this Act;

3) require additional or more frequent reporting by the credit institution;

4) carry out additional or more frequent review of the operational, strategic or business plans of the credit institution; or

5) carry out supervision of a particular part of the operations and monitor risks that are likely to materialise.

(3) The Croatian National Bank may, in accordance with the provisions of this Act, carry out on-site examinations of branches of credit institutions from other Member States which provide services within the territory of the Republic of Croatia through branches, regardless of the supervisory examination programme of the competent authority of the home Member State.

Persons authorised to exercise supervision

Article 183

(1) The supervision referred to in Article 175, paragraph (2), item (1) of this Act shall be exercised by employees of the Croatian National Bank (hereinafter referred to as 'persons authorised by virtue of their employment status').

(2) The supervision referred to in Article 175, paragraph (2), item (2) of this Act shall be exercised by employees of the Croatian National Bank authorised by the Governor of the Croatian National Bank (hereinafter referred to as 'authorised persons').

(3) Exceptionally, the Governor of the Croatian National Bank may authorise a certified auditor, an audit company or other professionally qualified persons to carry out tasks related to on-site examinations of a credit institution's operation.

(4) When carrying out the tasks related to on-site examinations of credit institutions' operation for which they have been authorised by the Governor of the Croatian National Bank, the persons referred to in paragraph (3) of this Article shall have the same powers and responsibilities as authorised persons of the Croatian National Bank.

On-site examination

Article 184

(1) A credit institution shall enable authorised persons, at their request, to carry out an on-site examination at the head office of the credit institution and in other localities in which the credit institution or another person with its authorisation carries out activities and operations subject to the supervision of the Croatian National Bank.

(2) A credit institution shall enable authorised persons, at their request, to carry out an examination of business books, business documentation, and administrative or business records as well as an examination of information and related technologies, to the extent necessary for an individual examination.

(3) A credit institution shall deliver to authorised persons, at their request, computer print-outs, copies of business books, business documentation, and administrative or business records in a paper form or in the form of an electronic record in the medium and format required by the

authorised persons. The credit institution shall provide authorised persons with a standard interface providing access to the system for database management used by the credit institution, for the purpose of carrying out an examination supported by computer programmes.

(4) The examination referred to in paragraphs (1) and (2) of this Article shall be carried out by authorised persons during working hours of a credit institution. When necessary because of the scope or nature of the examination, the credit institution shall enable authorised persons to carry out the examination outside its working hours.

Notification of an on-site examination

Article 185

(1) The Croatian National Bank shall deliver a notification of an on-site examination to a credit institution at least eight days before the beginning of the on-site examination. The notification shall include the subject of supervision and information on what the credit institution should prepare for authorised persons for the purpose of carrying out the on-site examination.

(2) By way of derogation from the provision of paragraph (1) of this Article, authorised persons may deliver the notification of an on-site examination as late as the beginning of the on-site examination.

Conditions for carrying out on-site examinations

Article 186

(1) A credit institution shall provide authorised persons with adequate premises in which they can carry out an on-site examination without disturbance and without the presence of other persons.

(2) In the course of an on-site examination, a credit institution shall ensure the presence of the credit institution's authorised persons in the premises referred to in paragraph (1) of this Article, who may, at the request of authorised persons of the Croatian National Bank, provide appropriate explanations concerning the business books, business documentation, business events, and administrative or business records subject to supervision.

Examination of computerised business books and records

Article 187

(1) A credit institution which processes data by computer or keeps its business books and other records by computer shall, at the request of authorised persons, ensure the conditions and adequate means of support for the examination of business books and records, and the possibility of examining whether the computerised data have been appropriately processed.

(2) A credit institution shall submit to authorised persons documentation that provides a complete description of the accounting system's operation. The documentation must provide a clear view of

the subsystems and databases of the accounting system. The documentation must enable authorised persons to gain an insight into:

- 1) programme solutions;
- 2) processing procedures for data processed by computer;
- 3) controls ensuring appropriate data processing; and
- 4) controls ensuring data confidentiality, integrity and availability.

Ongoing review of the permission to use internal approaches

Article 188

(1) The Croatian National Bank shall review on a regular basis, and at least every three years, credit institutions' compliance with the requirements regarding prior permission to use internal approaches for the calculation of own funds requirements in accordance with Part Three of Regulation (EU) No 575/2013. It shall have particular regard to changes in a credit institution's business and to the implementation of those approaches to new products.

(2) Where in the procedure referred to in paragraph (1) of this Article the Croatian National Bank identifies material deficiencies in risk capture by a credit institution's internal approach, it shall impose appropriate supervisory measures on a credit institution to eliminate such deficiencies or to mitigate their consequences, including by imposing higher multiplication factors, or imposing capital add-ons.

(3) The Croatian National Bank shall in particular review and assess whether the credit institution uses well developed and up-to-date techniques and practices for internal approaches.

(4) If the procedure referred to in paragraph (1) of this Article indicates that an internal model used by the credit institution for the calculation of own funds requirements for market risks is not or is no longer sufficiently accurate due to numerous overshootings referred to in Article 366 of Regulation (EU) No 575/2013, the Croatian National Bank shall revoke the permission for using the internal model or impose appropriate supervisory measures to ensure that the model is improved as soon as possible.

(5) If a credit institution has received permission to apply an internal approach for the calculation of own funds requirements in accordance with Part Three of Regulation (EU) No 575/2013 but does not meet the requirements for applying that approach any more, the Croatian National Bank shall require the credit institution to either demonstrate that the effect of non-compliance is immaterial where applicable in accordance with Regulation (EU) No 575/2013 or present a plan for the timely restoration of compliance with the requirements and set a deadline for its implementation. The Croatian National Bank shall require improvements to that plan if it is unlikely to result in full compliance or if the deadline is inappropriate.

(6) If, in the case referred to in paragraph (5) of this Article, the credit institution is unlikely to be able to restore compliance within an appropriate deadline and, where applicable, has not satisfactorily demonstrated that the effect of non-compliance is immaterial, the Croatian National Bank shall revoke a decision on the permission to use the internal approach or shall change it so as to limit the permission to compliant areas or those where compliance can be achieved within an appropriate deadline.

Supervisory benchmarking of internal approaches for calculating own funds requirements

Article 189

(1) Credit institutions which are in accordance with Regulation (EU) No 575/2013 permitted to use internal approaches for the calculation of risk weighted exposure amounts or own funds requirements except for operational risk shall report to the Croatian National Bank and the European Banking Authority the results of the calculations of their internal approaches for their exposures or positions that are included in the benchmark portfolios. Credit institutions shall in their reports submit the results of their calculations, together with an explanation of the methodologies used to produce them.

(2) The benchmark portfolio referred to in paragraph (1) of this Article shall be determined by a technical standard adopted by the European Commission. The Croatian National Bank may adopt subordinate legislation to further regulate the content of the reports referred to in paragraph (1) of this Article, and the method of and time limits for their submission and may prescribe specific portfolios for which own funds requirements are calculated.

(3) Before determining the specific portfolio referred to in paragraph (2) of this Article, the Croatian National Bank shall consult the European Banking Authority.

(4) Where the Croatian National Bank identifies that internal models used by a credit institution lead to an underestimation of own funds requirements which is not attributable to differences of the underlying risks or the exposures or positions, it shall impose necessary measures on that credit institution.

(5) The necessary measures referred to in paragraph (4) of this Article must comply with the objectives of an internal approach and therefore may not:

- a) lead to standardisation of approaches or to the use of preferred methods;
- b) create wrong incentives; or
- c) cause herd behaviour.

End of an examination of a credit institution

Article 190

(1) A report on examination findings shall be prepared following an examination of the credit institution's operation.

(2) Following an examination of a credit institution, the Croatian National Bank may, depending on the findings in the report, impose supervisory measures on the credit institution, pursuant to the provisions of this Act.

(3) By way of derogation from the provisions of paragraph (1) of this Article, a report on examination findings shall not be prepared where the examination has been carried out in accordance with the provisions of Article 175, paragraph (2), item (1) of this Act and where no illegalities or weaknesses and deficiencies in the credit institution's operation have been identified that would require the imposition of supervisory measures.

On-site examination of credit institutions having their head office in the Republic of Croatia and operating in another Member State

Article 191

(1) Where a credit institution having its head office in the Republic of Croatia operates directly or through a branch within the territory of another Member State, the Croatian National Bank or persons it has authorised for individual supervisory tasks may carry out an on-site examination, including the verification of the information referred to in Article 202 of this Act, after notifying in advance the competent supervisory authority of the host Member State.

(2) The Croatian National Bank may request the competent authority of the host Member State in which the credit institution provides services to carry out an on-site examination of that credit institution's branch or appoint a certified auditor or another professionally qualified person authorised by the Governor to carry out an on-site examination.

(3) The Croatian National Bank may participate in an on-site examination of the credit institution's branch situated in a Member State regardless of who carries out the on-site examination.

(4) Where the competent authorities of the host Member State carried out an on-site examination of a branch of a credit institution having its head office in the Republic of Croatia for reasons of stability of the financial system in the host Member State and submitted to the Croatian National Bank the information obtained and findings that are relevant for the risk assessment of the credit institution or the stability of the financial system in the host Member State, the Croatian National Bank shall duly take into account that information and those findings in determining its supervisory examination programme referred to in Article 182 of this Act, also having regard to the stability of the financial system in the host Member State.

Measures against branches situated in host Member States

Article 192

(1) Where the competent or supervisory authorities of the host Member State in which a credit institution having its head office in the Republic of Croatia operates directly or through a branch, on the basis of information received from the Croatian National Bank or another competent authority of the Republic of Croatia or on the basis of cooperation of competent authorities in the exercise of supervision, notifies the Croatian National Bank that the credit institution concerned does not comply with the national provisions transposing Directive 2013/36/EU or the provisions of Regulation (EU) No 575/2013 or that there is a material risk that the credit institution will not comply with the national provisions transposing Directive 2013/36/EU or the provisions of Regulation (EU) No 575/2013, the Croatian National Bank shall, unless a decision to open winding-up or bankruptcy proceedings against a credit institution is adopted in the Republic of Croatia, without delay impose supervisory measures on the credit institution to remedy its non-compliance or measures to avert the risk of non-compliance and shall notify the competent authorities of the host Member State without delay.

(2) Where the competent or supervisory authorities of the host Member State in which a credit institution having its head office in the Republic of Croatia provides services through a branch has taken precautionary measures, the Croatian National Bank may object to those measures or may refer the matter to the European Banking Authority and request its assistance in accordance with Article 19 of Regulation (EU) No 1093/2010.

Notification to competent authorities of host Member States

Article 193

Where the Croatian National Bank revokes authorisation to provide banking and/or financial services of a credit institution having its head office in the Republic of Croatia or prohibits the credit institution from providing individual financial services by imposing a supervisory measure, it shall without delay notify the competent authority of the Member States in which that credit institution provides services directly or through a branch.

XVI.3 SUPERVISION OF CREDIT INSTITUTIONS OF OTHER MEMBER STATES PROVIDING SERVICES IN THE REPUBLIC OF CROATIA THROUGH BRANCHES OR DIRECTLY

Powers to supervise the operation of branches

Article 194

(1) The Croatian National Bank shall be empowered to require that credit institutions with head offices in other Member States which operate within the territory of the Republic of Croatia through branches submit information on all services these branches provide within the territory of the Republic of Croatia.

(2) The Croatian National Bank shall be empowered to use the information collected pursuant to paragraph (1) of this Article:

1) for information or statistical purposes;

2) to decide on the designation of a branch as being significant in accordance with the provisions of this Act; and

3) to exercise supervision in accordance with the provisions of this Title.

(3) The Croatian National Bank shall be bound by the duty to protect the confidentiality of the information collected pursuant to paragraph (1) of this Article.

(4) For the purpose of maintaining financial stability in the Republic of Croatia, the Croatian National Bank may carry out individual on-site examinations of branches of credit institutions of other Member States and require all information necessary for their supervision. Before carrying out such on-site examinations, the Croatian National Bank shall consult the competent authorities of the home Member State.

(5) In the case referred to in paragraphs (1) and (9) of this Article, the Croatian National Bank may act in accordance with the powers referred to in Article 295 of this Act.

(6) After on-site examinations, the Croatian National Bank shall communicate to the competent authorities of the home Member State the information obtained and findings that are relevant for the risk assessment of the credit institution or the stability of the financial system in the Republic of Croatia.

(7) The Croatian National Bank shall exercise supervision of branches of credit institutions of other Member States in the manner prescribed in this Act.

(8) When imposing measures against branches of credit institutions of other Member States, the Croatian National Bank shall not apply discriminatory or restrictive treatment on the basis that a credit institution is authorised in another Member State.

(9) Where a credit institution having its head office in another Member State operates through a branch within the territory of the Republic of Croatia, the competent authority of the home Member State may:

1) carry out an on-site examination of the information referred to in Article 202 of this Act on its own initiative or through a person it authorised, after notifying the Croatian National Bank in advance; or

2) request the Croatian National Bank or a person authorised by the Croatian National Bank to carry out an on-site examination of the branch of a credit institution of that Member State within the territory of the Republic of Croatia.

(10) The Croatian National Bank may adopt subordinate regulation to further regulate the content of the information referred to in paragraph (1) of this Article and the method of and time limits for their submission.

Supervisory measures against credit institutions of other Member States

Article 195

(1) Where the Croatian National Bank on the basis of the information referred to in Article 202 of this Act establishes that a credit institution of another Member State which provides services in the Republic of Croatia breaches the provisions of Article 88 of this Act or the provisions of Regulation (EU) No 575/2013 and if there is a material risk that the credit institution will not comply with the provisions of Article 88 of this Act or the provisions of Regulation (EU) No 575/2013, the Croatian National Bank shall notify the competent authorities of the home Member State.

(2) Where the Croatian National Bank considers that the competent authorities of the home Member State have not taken measures to remedy the non-compliance or avert the risk of non-compliance referred to in paragraph (1) of this Article or if it deems that such measures will not be taken, it may refer the matter to the European Banking Authority and request its assistance in accordance with Article 19 of Regulation (EU) No 1093/2010.

Measures to protect the general good and depositors

Article 196

(1) By way of derogation from the provisions of Articles 195 and 197 of this Act, the Croatian National Bank may, within its powers, impose measures to prevent or eliminate breaches of regulations adopted in the interests of the general good on credit institutions of other Member States which provide services within the territory of the Republic of Croatia. As a final measure, the Croatian National Bank may prohibit such credit institutions from providing mutually recognised services within the territory of the Republic of Croatia.

(2) The Croatian National Bank shall take appropriate measures to prevent a credit institution of another Member State which provides services in the Republic of Croatia through a branch or directly and whose authorisation has been revoked by the competent authorities of the home Member States from initiating further transactions within the territory of the Republic of Croatia in order to protect the interests of depositors.

Precautionary measures

Article 197

(1) Before initiating the procedure referred to in Article 195, paragraph (1) of this Act and before the adoption of measures by the competent authorities of the home Member State or the decision by the administrative, public or judicial authorities of the home Member State on reorganisation measures in accordance with Article 332 of this Act, when the Croatian National Bank, in emergency situations, assesses that the interests of depositors, investors and other clients of the credit institution of another Member State which provides services within the territory of the Republic of Croatia are threatened or might be threatened, it shall adopt a decision to impose precautionary measures to protect against financial instability. The Croatian National Bank shall

without delay notify the competent authorities of the home Member State in question, the European Banking Authority and the European Commission of precautionary measures taken.

(2) The precautionary measures referred to in paragraph (1) of this Article shall be proportionate to their purpose to protect against financial instability that seriously threatens or might threaten the interests of depositors, investors and other clients of the credit institution of another Member State which provides services within the territory of the Republic of Croatia. Precautionary measures may include a suspension of payment. When imposing the precautionary measures referred to in paragraph (1) of this Article, the Croatian National Bank shall take account that creditors in the Republic of Croatia of the credit institution with a head office in another Member State which provides services in the Republic of Croatia receive the same treatment as creditors from other Member States.

(3) Any precautionary measure referred to in paragraph (1) of this Article shall cease to have effect when the administrative, public or judicial authorities of the home Member State adopt a decision on reorganisation measures in accordance with Article 332 of this Act.

(4) The Croatian National Bank shall terminate the implementation of the precautionary measures referred to in paragraph (1) of this Article if it considers those measures to have become obsolete because the competent authorities of the home Member State have acted pursuant to the notification referred to in Article 195, paragraph (1) of this Act, unless they cease to have effect in accordance with paragraph (3) of this Article.

Supervision of credit institutions of other Member States directly providing services in the Republic of Croatia and financial institutions providing mutually recognised services within the territory of the Republic of Croatia

Article 198

(1) The provisions of Articles 194 to 197 of this Act shall apply *mutatis mutandis* to the supervision of credit institutions of other Member States directly providing services in the Republic of Croatia.

(2) The provisions of this Title shall also apply *mutatis mutandis* to financial institutions providing mutually recognised services within the territory of the Republic of Croatia in accordance with Article 84 of this Act.

XVI.4 SUPERVISION OF BRANCHES OF THIRD-COUNTRY CREDIT INSTITUTIONS PROVIDING SERVICES IN THE REPUBLIC OF CROATIA

Supervision of branches of third-country credit institutions providing services in the Republic of Croatia

Article 199

The Croatian National Bank shall exercise supervision of branches of third-country credit institutions providing services in the Republic of Croatia in accordance with the method and scope of supervision of credit institutions with head offices in the Republic of Croatia.

XVI.5 SUPERVISION FEES

Annual supervision fees

Article 200

For exercising the supervision referred to in Article 175 of this Act, credit institutions with head offices in the Republic of Croatia and branches of credit institutions with head offices outside the Republic of Croatia shall pay supervision fees to the Croatian National Bank. The Croatian National Bank shall regulate the amount, the basis for and the method of calculating and paying supervision fees in subordinate legislation.

XVII COOPERATION WITH COMPETENT AUTHORITIES AND EXCHANGE OF INFORMATION

Cooperation between the competent and supervisory authorities of the Republic of Croatia

Article 201

(1) The Croatian National Bank, the Croatian Financial Services Supervisory Agency and supervisory authorities in the Republic of Croatia shall, at the request of an individual supervisory authority, deliver to that authority all information on a credit or financial institution or an investment firm necessary for the exercise of supervisory and oversight tasks with regard to the credit or financial institution or the investment firm, in authorisation or approval procedures, or when deciding on other specific applications or requests within their competence.

(2) The authorities referred to in paragraph (1) of this Article shall notify each other of revocation of authorisations, illegalities and irregularities identified in the course of supervision and oversight, and of imposed measures for their elimination if such findings and imposed measures are relevant for the operation of the other authority.

(3) Where authorities other than the Croatian National Bank have the power of resolution, the Croatian National Bank and those other authorities shall exchange information on a credit institution that are necessary in the process of resolution of the credit institution.

Cooperation and exchange of information between the Croatian National Bank and the competent authorities of the Member States

Article 202

(1) The Croatian National Bank and the competent authorities of other Member States shall cooperate in the supervision of credit institutions which, directly or through a branch, provide services within the territory of the Republic of Croatia and the territory of the Member State in question.

(2) The Croatian National Bank and the competent authorities of the Member States, in addition to other reporting obligations under this Act, shall exchange all information concerning:

1) the management and ownership of credit institutions referred to in paragraph (1) of this Article that is likely to facilitate their supervision;

2) the examination of the conditions governing the issue of authorisations or approvals of other competent authorities; and

3) information likely to facilitate the supervision of such institutions, in particular with regard to liquidity, solvency, deposit insurance, the limiting of large exposures, other factors that may influence the systemic risk posed by the credit institution, administrative and accounting procedures and internal control systems.

(3) Where the Croatian National Bank is the competent authority of the home Member State, it shall without delay provide the competent authorities of host Member States with any information and findings pertaining to liquidity supervision in accordance with Part Six of Regulation (EU) No 575/2013 and the provisions of this Act governing the supervision on a consolidated basis of the activities performed by the credit institution through its branches, to the extent that such information and findings are relevant to the protection of depositors or investors in the host Member State.

(4) Where the Croatian National Bank is the competent authority of the home Member State, it shall without delay notify the competent authorities of all host Member States where liquidity stress occurs or can reasonably be expected to occur. That notification shall also include details about the planning and implementation of a recovery plan and about any supervisory measures taken in that context.

(5) Where the Croatian National Bank is the competent authority of the home Member State, it shall communicate and explain upon request to the competent authorities of the host Member State how information and findings provided by the latter have been taken into account. Where, following communication of information and findings, the competent authorities of the host Member State maintain that no appropriate measures have been taken by the Croatian National Bank, the competent authorities of the host Member State may, after notifying the Croatian National Bank and the European Banking Authority, take appropriate measures to prevent further breaches in order to protect the general interests of depositors, investors and others to whom banking and financial services are provided or to protect financial stability.

(6) Where the Croatian National Bank as the competent authority of the home Member State disagrees with the measures referred to in paragraph (5) of this Article taken by the competent authorities of the host Member State, it may refer the matter to the European Banking Authority and request its assistance in accordance with Article 19 of Regulation (EU) No 1093/2010.

(7) The Croatian National Bank may refer the matter to the European Banking Authority and request its assistance in accordance with Article 19 of Regulation (EU) No 1093/2010 where a request for collaboration, in particular to exchange information, has been rejected or has not been acted upon within a reasonable time by the competent authority of another Member State.

Deciding on the designation of a branch as being significant in cases where the Croatian National Bank is not the consolidating supervisor

Article 203

(1) The Croatian National Bank may make a request to the consolidating supervisor or to the competent authorities of the home Member State concerned, for a branch of a credit institution from that Member State which provides services within the territory of the Republic of Croatia to be considered as significant.

(2) In the request referred to in paragraph (1) of this Article, the Croatian National Bank shall provide reasons for considering the branch to be significant with particular regard to the following:

1) whether the market share of the branch of the credit institution in terms of deposits as defined in the law governing deposit insurance exceeds 2% in the Republic of Croatia;

2) the likely impact of a suspension or closure of the operations of the credit institution on systemic market liquidity and the payment, clearing and settlement systems in the Republic of Croatia; and

3) the size and the importance of the branch in terms of number of clients within the context of the banking or financial system of the Republic of Croatia.

(3) The Croatian National Bank, the competent authorities of the home Member State and, where determined, the consolidating supervisor shall cooperate in reaching a joint decision on the designation of a branch as being significant.

(4) If no joint decision is reached between the Croatian National Bank and the consolidating supervisor or the competent authorities of the home Member State within two months of receipt of a request referred to in paragraph (1) of this Article, the Croatian National Bank shall take its own decision within a further period of two months on whether the branch is significant. In taking its own decision, the Croatian National Bank shall take into account any views of the consolidating supervisor or the competent authorities of the home Member State.

(5) The decisions referred to in paragraphs (3) and (4) of this Article shall be recognised as determinative, they must be written and fully reasoned, and delivered to the competent authorities concerned.

(6) The adoption of the decisions referred to in paragraphs (3) and (4) of this Article shall not affect the responsibilities of the other competent authorities under this Act.

(7) Where the competent authorities of the home Member State have not consulted the Croatian National Bank, or where operational steps prescribed for liquidity recovery plans taken by the competent authority of the home Member State are not adequate, the Croatian National Bank may refer the matter to the European Banking Authority and request its assistance in accordance with Article 19 of Regulation (EU) No 1093/2010.

Deciding on the designation of a branch as being significant in cases where the Croatian National Bank is the consolidating supervisor

Article 204

(1) If the Croatian National Bank receives a request from the competent authorities of another Member State for a branch of a credit institution established in the Republic of Croatia and providing services within the territory of that Member State to be considered as significant, the Croatian National Bank shall cooperate with the competent authorities of the Member State concerned in reaching a joint decision on the designation of a branch as being significant.

(2) The decision referred to in paragraph (1) of this Article must be written and fully reasoned, and delivered to the competent authorities concerned.

(3) If no joint decision on the designation of a branch as being significant is reached within two months of receipt of a request referred to in paragraph (1) of this Article, and the competent authorities of the host Member State take their own decision on the designation of the branch as being significant within a further period of two months, that decision shall be recognised as determinative by the Croatian National Bank.

(4) The Croatian National Bank shall communicate to the competent authorities of the Member State where a significant branch of a credit institution which has its head office in the Republic of Croatia is established the information referred to in Article 288, paragraph (5), items (3) and (4) of this Act and plan and coordinate the activities referred to in Article 282, paragraph (1), item (3) of this Act in cooperation with the competent authorities of the host Member State.

(5) Where an emergency situation arises within the credit institution referred to in paragraph (1) of this Article, the Croatian National Bank shall without delay notify the persons referred to in Article 210, paragraph (1), item (1) and Article 211, paragraph (1) of this Act and the European Systemic Risk Board.

(6) The Croatian National Bank shall communicate to the competent authorities of the Member State where a significant branch of a credit institution which has its head office in the Republic of Croatia is established:

1) the risk assessment of a credit institution which has a significant branch on an individual or consolidated basis in accordance with Article 180, paragraph (1) and Article 181, paragraph (1) of this Act and, where applicable, the risk assessment referred to in Article 284, paragraphs (2) and (3) of this Act;

2) decisions on imposed supervisory measures referred to in Articles 224 and 225 of this Act in so far as those assessments are relevant to that branch; and

3) decisions regarding internal model validation in so far as those decisions are relevant for that branch.

(7) The Croatian National Bank shall consult the competent authorities of the Member State where a significant branch of a credit institution which has its head office in the Republic of Croatia is established about operational steps required by liquidity recovery plans, where relevant for liquidity risks in the host Member State's currency.

Establishment of a college of supervisors for significant branches

Article 205

(1) Where a college of supervisors referred to in Article 283 of this Act has not been established and a credit institution having its head office in the Republic of Croatia has significant branches in other Member States, the Croatian National Bank shall establish and chair a college of supervisors to facilitate the cooperation under Article 202 and Article 282, paragraph (1), item (3) and the exchange of information referred to in Article 288, paragraph (5), items (3) and (4) of this Act.

(2) The establishment and functioning of the college referred to in paragraph (1) of this Article shall be based on written arrangements to be determined, after consulting the competent authorities concerned, by the Croatian National Bank. The Croatian National Bank shall decide which competent authorities participate in a meeting or in an activity of the college, taking account of the potential impact of the supervisory activities to be planned on the stability of the financial system in the Member States concerned and obligations referred to in Article 204 of this Act.

(3) The Croatian National Bank shall keep all the members of the college of supervisors fully informed, in a timely manner, of the meetings planned, the main issues to be discussed and of the actions taken in those meetings or the measures carried out.

Duty to protect the confidentiality of information

Article 206

(1) Employees of the Croatian National Bank, auditors or other experts who work or have worked under authorisation of the Croatian National Bank shall be bound by the duty to protect the confidentiality of all information of which they become aware in the course of work on behalf of the Croatian National Bank.

(2) The persons referred to in paragraph (1) of this Article shall not divulge confidential information to any person or government body whatsoever, except in summary or collective form, such that individual credit institutions cannot be identified.

(3) The duty to protect the confidentiality of information referred to in paragraph (1) of this Article shall not refer to:

1) confidential information divulged for the purposes of criminal or preliminary proceedings, when requested or ordered in writing by the competent court or the competent authority of another Member State;

2) the delivery of confidential information in cases where bankruptcy or compulsory winding-up proceedings have been initiated against a credit institution or in related court proceedings, with the exception of those concerning natural or legal persons involved in attempts to reorganise that credit institution;

3) the public disclosure referred to in Article 215 of this Act; or

4) communicating the results of stress tests carried out in accordance with Article 180, paragraph (5) of this Act or Article 32 of Regulation (EU) No 1093/2010.

(4) By way of derogation from paragraphs (1) to (3) of this Article, the Croatian National Bank may exchange confidential information with the competent authorities of other Member States or communicate information to the European Banking Authority, the European Systemic Risk Board or the European Securities and Markets Authority in accordance with this Act, Regulation (EU) No 575/2013 and other applicable regulations of the European Union. The duty to protect the confidentiality of information shall also relate to this method of exchanging information.

Use of confidential information

Article 207

The Croatian National Bank may use confidential information of which it becomes aware in the course of supervision or other activities within its competence for the following purposes only:

1) to check that the conditions governing the issue of authorisations or approvals on which it decides pursuant to this Act are met;

2) to exercise supervision, on a non-consolidated and/or consolidated basis, of credit institutions, in particular with regard to the monitoring of liquidity, solvency, large exposures, administrative and accounting procedures, and internal control systems, as well as to impose supervisory measures;

3) in misdemeanour proceedings;

4) in administrative court proceedings against decisions of the Croatian National Bank; or

5) in other court proceedings related to breaches of the regulations of the European Union governing the operation of credit institutions.

Exchange of information between authorities

Article 208

(1) The Croatian National Bank may communicate confidential information to the following persons in the Republic of Croatia or in the Member States for the purpose of exercising supervision, oversight and other activities for which they are responsible:

1) authorities responsible for the supervision of credit institutions and other authorities responsible for the supervision of financial institutions, insurance undertakings, reinsurance undertakings, and financial markets;

2) authorities responsible for maintaining financial stability through the use of macroprudential regulations;

3) reorganisation bodies aiming at protecting financial stability;

4) courts and other bodies or legal persons responsible for the operations involved in the winding-up or bankruptcy of credit institutions and in other similar proceedings for the purpose of performing their duties under law;

5) auditors responsible for carrying out audits of credit and financial institutions for the purpose of performing their duties under law;

6) contractual or institutional protection schemes as referred to in Article 113, paragraph (7) of Regulation (EU) No 575/2013 where necessary for the operations related to deposit insurance; and

7) bodies which administer deposit insurance schemes and investor compensation schemes.

(2) Persons to whom the Croatian National Bank delivers confidential information in accordance with paragraph (1) of this Article shall be subject to the duty to protect the confidentiality of information referred to in Article 206 of this Act.

Exchange of information with oversight authorities

Article 209

(1) The Croatian National Bank may exchange confidential information with the authorities in the Republic of Croatia or other Member States responsible for overseeing:

1) the authorities involved in the winding-up or bankruptcy of credit institutions and in other similar proceedings;

2) contractual or institutional protection schemes as referred to in Article 113, paragraph (7) of Regulation (EU) No 575/2013;

3) auditors responsible for carrying out audits of credit institutions, insurance undertakings and financial institutions.

(2) The Croatian National Bank shall exchange confidential information with the authorities referred to in paragraph (1) of this Article if the following conditions are met:

1) the information is provided only for the purpose of performing the oversight tasks of these authorities;

2) the information received is subject to the duty to protect the confidentiality of information in accordance with Article 206 of this Act; and

3) the information that originates in another Member State may not be disclosed without the express agreement of the competent authorities of the Member State which have disclosed it and, where appropriate, solely for the purposes for which those authorities gave their agreement.

(3) The Croatian National Bank may, with the aim of strengthening the stability and integrity of the financial system, exchange information with other competent authorities and bodies in the Republic of Croatia and the Member States responsible under law for the detection and investigation of breaches of company law, when requested or ordered in writing by the competent court. The Croatian National Bank shall disclose confidential information to these authorities and bodies if the following conditions are met:

1) the information is provided only for the purpose of detecting and investigating breaches of company law;

2) the information received is subject to the duty to protect the confidentiality of information in accordance with Article 206 of this Act; and

3) the information that originates in another Member State may not be disclosed without the express agreement of the competent authorities of the Member State which have disclosed it and, where appropriate, solely for the purposes for which those authorities gave their agreement.

(4) Where the authorities referred to in paragraph (1) of this Article perform their tasks with the aid of persons not employed in the public sector, the Croatian National Bank may exchange the information referred to in paragraph (3) of this Article with such persons under the conditions specified in that paragraph.

(5) The authorities and bodies referred to in paragraph (3) of this Article shall communicate to the Croatian National Bank the names and precise responsibilities of the persons to whom it is to be sent.

Exchange of information concerning monetary policy, deposit insurance, systemic risk and payment system aspects

(1) The Croatian National Bank shall communicate confidential information to the following authorities or bodies in the Republic of Croatia or in other Member States for the purposes of their tasks:

1) central banks of the European System of Central Banks and other bodies with a similar function in their capacity as monetary authorities when this confidential information is relevant for the exercise of their respective statutory tasks, including the conduct of monetary policy and related liquidity provision, oversight of payments, clearing and settlement systems and the safeguarding of stability of the financial system, and in particular in emergency situations referred to in Article 286 of this Act, when this information must be communicated without delay;

2) contractual or institutional protection schemes as referred to in Article 113, paragraph (7) of Regulation (EU) No 575/2013;

3) other public authorities responsible for overseeing payment systems; and

4) the European Systemic Risk Board, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority, where the information is relevant for the exercise of their tasks under Regulations (EU) No 1092/2010, (EU) No 1094/2010 or (EU) No 1095/2010.

(2) The Croatian National Bank may request information from the authorities or bodies referred to in paragraph (1) of this Article when such information is necessary for the purpose of exercising supervision or other activities within its competence in accordance with Article 207 of this Act.

(3) The persons referred to in this Article shall be subject to the duty to protect the confidentiality of information referred to in Article 206 of this Act.

Exchange of information with other entities

Article 211

(1) The Croatian National Bank may communicate confidential information to the ministry responsible for finance or other government bodies responsible for proposing legislation on the supervision of credit institutions, financial institutions, investment firms and insurance undertakings where necessary for the purpose of exercising supervision within their competence, and for the implementation or precautionary and resolution measures for failing credit institutions.

(2) In an emergency situation as referred to in Article 286, paragraph (1) of this Act, the Croatian National Bank shall communicate information which is relevant to the entities referred to in paragraph (1) of this Article to all Member States concerned.

(3) The Croatian National Bank may communicate confidential information relating to the prudential supervision to enquiry committees of the Croatian Parliament, the State Audit Office, and other entities in charge of enquiries if all the following conditions are met:

- 1) that the entities have a precise mandate under national law to investigate or scrutinise the actions of the Croatian National Bank in the exercise of supervision of credit institutions;
 - 2) that the information is strictly necessary for fulfilling the mandate of these entities;
 - 3) employees or members of the entities are subject to the duty to protect the confidentiality of information referred to in Article 206 of this Act;
 - 4) where the confidential information originates in another Member State, it may not be disclosed without the express agreement of the competent authorities which have disclosed it and solely for the purpose for which it has been given;
 - 5) to the extent that the confidential information involves personal data, any processing by the entities shall comply with the regulation governing the protection of personal data.
- (4) The Croatian National Bank may not disclose information received in accordance with Article 194, paragraphs (4) and (6), Article 206, paragraph (4) and Article 208 of this Act and information obtained in the course of an on-site examination referred to in Article 194, paragraphs (1) and (2) of this Article to the entities referred to in paragraphs (3) and (5) of this Article save with the express agreement of the competent authorities which disclosed the information or of the competent authorities of the Member State in which such an on-site examination was carried out.
- (5) The Croatian National Bank may communicate the confidential information referred to in Articles 206, 207 and 212 of this Act to a clearing house which provides clearing and settlement services and is recognised under the national law governing the financial instruments market if the Croatian National Bank deems that it is necessary to communicate the information in order to ensure the proper functioning of those bodies in relation to defaults or potential defaults by market participants.
- (6) The Croatian National Bank may disclose the information referred to in Article 206, paragraph (4) of this Act to the bodies referred to in paragraph (7) of this Article only with the express agreement of the competent authorities which have disclosed it.
- (7) The persons referred to in paragraphs (1), (2) and (7) of this Article shall be subject to the duty to protect the confidentiality of information referred to in Article 206 of this Act.

Cooperation with the competent authorities of third countries

Article 212

- (1) The Croatian National Bank may conclude an agreement on the exchange of information with one or more competent authorities of third countries or persons from third countries whose position is equal to that of the persons referred to in Articles 208 and 209 of this Act for the purpose of exercising supervision, oversight or other activities for which they are responsible.

(2) The Croatian National Bank may also communicate confidential information to persons from third countries whose position is equal to that of the authorities and persons referred to in paragraph (1) of this Article if all of the following conditions are met:

1) it has concluded an agreement with such persons providing for the mutual exchange of information;

2) persons from a third country are subject to the duty to protect the confidentiality of information which is in its content equal to that referred to in Article 206 of this Act;

3) the information delivered to persons and authorities referred to in paragraph (1) of this Article is to be used only for the purpose of exercising supervision, oversight or other activities for which they are responsible; and

4) it is guaranteed that the information received from the competent authorities of the Member State shall be disclosed to third parties only with the express agreement of the authorities which have disclosed the information and solely for the purpose for which it has been given.

Processing of personal data

Article 213

The collection, processing and use of personal data shall be carried out in accordance with the provisions of the Personal Data Protection Act and Regulation (EC) No 45/2001.

Notification to the European Union bodies

Article 214

(1) The Croatian National Bank shall notify the European Commission of:

1) the refusal of a credit institution's application to establish a branch in another Member State, failure to communicate information, and of precautionary measures referred to in Article 197 of this Act; and

2) the assumption and delegation of responsibility referred to in Article 280, paragraphs (1) and (2) of this Act.

(2) The Croatian National Bank shall notify the European Commission, the European Banking Authority and the European Banking Committee of all authorisations for branches granted to credit institutions having their head office in a third country.

(3) The Croatian National Bank shall establish a list of RC parent financial holding companies referred to in Article 97, paragraph (2) of this Act and RC parent mixed financial holding companies referred to in Article 97, paragraph (2) of this Act and shall communicate it to the

relevant competent authorities of the other Member States, the European Banking Authority and the European Commission.

(4) The Croatian National Bank shall notify the other competent authorities involved in supervision on a consolidated basis, the European Banking Authority and the European Commission of the procedures referred to in Article 299, paragraph (3) of this Act.

(5) The Croatian National Bank shall notify the European Banking Authority of:

- 1) the requirements for authorisation of credit institutions;
- 2) the issue, annulment and revocation of authorisations to credit institutions as well as the reasons for annulment or revocation of authorisation;
- 3) the refusal of a credit institution's application to establish a branch in another Member State, failure to communicate information, and of precautionary measures referred to in Article 197 of this Act;
- 4) data disclosed by a credit institution in accordance with Article 450, paragraph (1), items (g), (h) and (i) of Regulation (EU) No 575/2013;
- 5) data on employees whose annual remuneration exceeds the amount established under the regulation referred to in Article 101, paragraph (2), item (5) of this Act;
- 6) the assumption and delegation of responsibility referred to in Article 280, paragraphs (1) and (2) of this Act;
- 7) the authorities or bodies with which it shall exchange confidential information in accordance with Article 209 of this Act;
- 8) all decisions in misdemeanour proceedings, legal remedies taken and the progress of proceedings;
- 9) the existence and content of the bilateral agreements referred to in Article 287, paragraphs (3) and (4) of this Act;
- 10) examination findings, where it is established that a credit institution may pose systemic risk in accordance with Article 23 of Regulation (EU) No 1093/2010;
- 11) examination findings and supervisory measures imposed;
- 12) the method of exercising supervision of credit institutions;
- 13) the methodology used to base decisions referred to in Article 180, paragraph (5), Article 181, Article 188, Article 220, paragraph (1), Article 224 and Article 225 of this Act;

14) meetings relating to the development and coordination of recovery and resolution plans, in particular of the dates and places of the meetings, the main issues to be discussed and the activities to be considered; and

15) an occurrence of an emergency situation, including a situation as described in Article 18 of Regulation (EU) No 1093/2010 or a situation of adverse developments in the markets which potentially jeopardises the market liquidity and the stability of the financial system in any of the Member States.

(6) The Croatian National Bank shall also notify the European Commission, the European Banking Authority, the European Banking Committee and other European Union bodies of other matters where so required by the *acquis communautaire*.

(7) Where the Croatian National Bank is the consolidating supervisor, it shall communicate to the other competent authorities concerned and the European Banking Authority all information on a group of credit institutions referred to in Article 67, paragraph (1), items (2) and (3), Article 97, paragraphs (5), (6) and (7) and Article 101 of this Act, in particular on legal relationships in a group of credit institution and the governance and organisational structure of a group of credit institutions.

(8) The Croatian National Bank may communicate to the European Banking Authority information received from the authorities referred to in Article 212 of this Act.

Public disclosure by the Croatian National Bank

Article 215

(1) The Croatian National Bank shall publicly disclose the following information:

1) the texts of laws, decisions, instructions and general guidance adopted in the Republic of Croatia in the field of prudential regulation;

2) the manner of exercise of the options and discretions available in the regulations of the European Union governing the operation of credit institutions;

3) the general criteria and methodologies it uses in the supervision of credit institutions referred to in Article 181 of this Act;

4) aggregate statistical data on key aspects of the implementation of the prudential framework which the Croatian National Bank collected pursuant to this Act and regulations adopted under this Act, including the number and nature of supervisory measures taken and of penalties imposed in accordance with this Act;

5) lists of recognised exchanges and external credit assessment institutions; and

6) the dispositive parts of the decisions referred to in Article 30 of this Act.

(2) The information referred to in paragraph (1) of this Article shall be disclosed in a way which allows for meaningful comparison of the approaches adopted by the competent authorities of the different Member States. Such information shall be updated regularly and accessible at the websites of the Croatian National Bank.

(3) In addition to the information referred to in paragraph (1) of this Article, the Croatian National Bank may disclose other information within its competence.

(4) The Croatian National Bank shall publish on its website decisions on penalties against which there is no appeal and which are imposed on credit institutions and responsible persons of credit institutions by misdemeanour courts and other authorities responsible for misdemeanour proceedings, adopted in proceedings in which the Croatian National Bank acts as an authorised prosecutor. The decisions shall be published without undue delay but after the person on whom the penalty is imposed is informed of those penalties.

(5) The Croatian National Bank may publish decisions it adopts in the course of exercising its powers. When the Croatian National Bank publishes such decisions, it shall also publish a decision of the administrative court adopted with regard to an appeal to the decision.

(6) Data covered by banking secrecy pursuant to the provisions of this Act shall be excluded from the publications referred to in paragraphs (4) and (5) of this Article.

(7) The Croatian National Bank shall publish decisions on penalties imposed on credit institutions and responsible persons of credit institutions by misdemeanour courts and other authorities responsible for misdemeanour proceedings on an anonymous basis in any of the following circumstances:

1) where the penalty is imposed on responsible persons of a credit institution and, following an obligatory prior assessment, the Croatian National Bank found publication of personal data to be disproportionate;

2) where publication would jeopardise the stability of financial markets or an ongoing criminal investigation; or

3) where publication would cause, insofar as it can be determined, disproportionate damage to the credit institutions or natural persons involved.

(8) Information referred to in paragraphs (4) and (7) of this Article shall remain on the website at least five years.

Specific requirements regarding disclosure by the Croatian National Bank

Article 216

(1) The Croatian National Bank shall publish the following information regarding exposure to transferred credit risk under Part Five of Regulation (EU) No 575/2013:

1) the general criteria and methodologies adopted to review compliance with Articles 405 to 409 of Regulation (EU) No 575/2013; and

2) a summary description of examination findings and description of the measures imposed in cases of non-compliance with Articles 405 to 409 of Regulation (EU) No 575/2013, identified on an annual basis.

(2) Where the Croatian National Bank exercises the discretion laid down in Article 7, paragraph (3) of Regulation (EU) No 575/2013, it shall publish the following information:

1) the criteria it applies to determine that there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities;

2) the number of parent credit institutions which benefit from the exercise of the discretion laid down in Article 7, paragraph (3) of Regulation (EU) No 575/2013 and the number of those which incorporate subsidiaries in a third country;

3) on an aggregate basis for the Republic of Croatia:

– the total amount of own funds on the consolidated basis of parent credit institutions in the Republic of Croatia, which benefit from the exercise of the discretion laid down in Article 7, paragraph (3) of Regulation (EU) No 575/2013, which are held in subsidiaries in a third country;

– the percentage of total own funds on the consolidated basis of parent credit institutions in the Republic of Croatia, which benefit from the exercise of the discretion laid down in Article 7, paragraph (3) of Regulation (EU) No 575/2013, represented by own funds which are held in subsidiaries in a third country; and

– the percentage of total own funds required under Article 92 of Regulation (EU) No 575/2013 on the consolidated basis of parent credit institutions in the Republic of Croatia, which benefit from the exercise of the discretion laid down in Article 7, paragraph (3) of Regulation (EU) No 575/2013, represented by own funds which are held in subsidiaries in a third country.

(3) Where the Croatian National Bank exercises the discretion laid down in Article 9, paragraph (1) of Regulation (EU) No 575/2013, it shall publish the following information:

1) the criteria it applies to determine that there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities;

2) the number of parent credit institutions which benefit from the exercise of the discretion laid down in Article 9, paragraph (1) of Regulation (EU) No 575/2013 and the number of such parent credit institutions which incorporate subsidiaries in a third country; and

3) on an aggregate basis for the Republic of Croatia:

- the total amount of own funds of parent credit institutions which benefit from the exercise of the discretion laid down in Article 9, paragraph (1) of Regulation (EU) No 575/2013, which are held in subsidiaries in a third country;
- the percentage of total own funds of parent credit institutions which benefit from the exercise of the discretion laid down in Article 9, paragraph (1) of Regulation (EU) No 575/2013, which are held in subsidiaries in a third country;
- the percentage of total own funds required under Article 92 of Regulation (EU) No 575/2013 of parent credit institutions which benefit from the exercise of the discretion laid down in Article 9, paragraph (1) of Regulation (EU) No 575/2013, represented by own funds which are held in subsidiaries in a third country.

XVII SUPERVISORY MEASURES

XVIII.1 GENERAL PROVISIONS

Supervisory measures

Article 217

- (1) The objective of the supervisory measures of the Croatian National Bank shall be to take actions at an early stage to improve the safety and stability of credit institutions' operation and to eliminate established illegalities.
- (2) Supervisory measures shall be implemented by means of:
 - 1) a memorandum of understanding, or
 - 2) a decision.
- (3) Supervisory measures of the Croatian National Bank shall be effective, proportionate and generally and particularly dissuasive.

Memorandum of understanding

Article 218

- (1) Following an examination of a credit institution, the Croatian National Bank may conclude a memorandum of understanding with the credit institution if it finds weaknesses or deficiencies in the credit institution's operation which do not constitute a breach of regulations, if following the examination it deems it necessary that the credit institution takes actions and procedures to improve its operation, or if on the basis of information available to the Croatian National Bank it may be reasonably expected that the credit institution will breach regulations within the following 12 months.

(2) The Croatian National Bank may propose to a credit institution the conclusion of a memorandum of understanding if:

1) the credit institution has begun to eliminate weaknesses or deficiencies in the course of or immediately following the examination;

2) the credit institution is ready to commit itself to eliminating the weaknesses or deficiencies within proposed time limits and in the manner proposed;

3) the credit institution's track record with regard to measures, objections and instructions of the Croatian National Bank suggests that the credit institution will completely fulfil the commitments to be taken under the memorandum; or

4) the credit institution's track record, and the frequency of weaknesses, deficiencies or illegalities identified, suggest that the credit institution will in its future operations ensure the legality, safety and stability of operation.

(3) A memorandum of understanding shall lay down:

1) the time limit for and the method to be used by the credit institution to eliminate the weaknesses or deficiencies in its operation; and

2) the time limit for and the frequency of the credit institution's reporting to the Croatian National Bank on the fulfilment of the commitments taken under the memorandum of understanding.

Consequences of a failure to fulfil the commitments taken under a memorandum of understanding

Article 219

Where a credit institution fails to fulfil the commitments taken under a memorandum of understanding within the time limit and in the manner laid down in the memorandum, the Croatian National Bank shall adopt a decision and issue the warning referred to in Article 43 of this Act to the responsible person of the credit institution's management board.

XVIII.2 ELIMINATION OF ILLEGALITIES IDENTIFIED IN THE COURSE OF SUPERVISION OF CREDIT INSTITUTIONS

Decision to impose supervisory measures

Article 220

(1) The Croatian National Bank shall adopt a decision at an early stage to impose supervisory measures on a credit institution if, within its supervisory powers, it finds:

1) that by its actions or omission of particular actions the credit institution acted contrary to this Act, Regulation (EU) No 575/2013 or other regulations governing the operation of credit institutions;

2) that on the basis of information available to the Croatian National Bank it may be reasonably expected that the credit institution will breach the provisions of this Act, Regulation (EU) No 575/2013 or other regulations governing the operation of credit institutions within the following 12 months;

3) weaknesses or deficiencies in the credit institution's operation which do not constitute a breach of regulations; or

4) that it is necessary that the credit institution takes actions and procedures to improve its operation.

(2) The decision referred to in paragraph (1) of this Article shall lay down the time limit for and the method to be used by the credit institution to eliminate the illegalities, weaknesses or deficiencies in its operation.

(3) A credit institution may, no later than 15 days before the expiry of the time limit referred to in paragraph (2) of this Article, apply for an extension of that time limit by a reasoned request. The Croatian National Bank shall decide on the extension at the latest by the expiry of the time limit laid down in the decision.

(4) A credit institution shall implement supervisory measures in the manner and within the time limits laid down in a decision of the Croatian National Bank.

Decisions in the course of on-site examinations

Article 221

By way of derogation from Article 220 of this Act, the Croatian National Bank may also adopt a decision in the course of an on-site examination and order the credit institution to take measures to eliminate particular illegalities, which the credit institution shall implement without delay where:

1) authorised persons find in the course of the on-site examination that the credit institution has not organised its operation or does not keep business books, business documentation and other business records in such a manner that it is at all times possible to verify whether the credit institution carries out its activities in accordance with risk management regulations and rules;

2) the credit institution carries out its activities in a manner which may worsen or jeopardise its liquidity or solvency; or

3) it is impossible to continue the on-site examination of the credit institution.

Certified auditor's report on the elimination of illegalities

Article 222

Where, in the course of supervision, the Croatian National Bank finds that a credit institution acts contrary to the regulations governing the keeping of business books, administrative and other records that the credit institution is required to keep, or where it finds other major illegalities, it may adopt a decision ordering the credit institution to submit to the Croatian National Bank a certified auditor's report on the elimination of these illegalities within a specified time limit.

Reporting to the Croatian National Bank on the implementation of decisions

Article 223

(2) In its decision to impose supervisory measures, the Croatian National Bank may also order the credit institution to report to the Croatian National Bank within a specified time limit on the implementation of the measures imposed.

(2) The credit institution shall report to the Croatian National Bank on the implementation of measures and shall enclose relevant documents and other evidence within the time limit referred to in paragraph (1) of this Article. In the cases referred to in Article 222 of this Act, the credit institution shall also deliver a certified auditor's report on the elimination of illegalities.

(3) Where the Croatian National Bank finds that the measures imposed have not been implemented or have not been implemented within the time limit and in the manner imposed by the decision, it may adopt a decision to impose a new supervisory measure on the credit institution.

XVIII.3 TYPES OF SUPERVISORY MEASURES

Types of supervisory measures

Article 224

(1) In addition to the other measures imposed under this Act, by its supervisory measures the Croatian National Bank may in particular:

1) order a credit institution to remove the chairperson, a member or members of the management board from office and appoint a new chairperson, member or members of the credit institution's management board;

2) order a credit institution to convene a general meeting with an agenda determined by the Croatian National Bank and, where necessary, present to its shareholders in its head office a report on the credit institution's operation, which the Croatian National Bank prepares based on the supervision exercised;

3) impose a temporary prohibition on:

– granting credits and providing recognised and other financial services to persons with inadequate creditworthiness;

– concluding transactions with individual shareholders, members of the management or supervisory board, procurators, undertakings having close links with the credit institution, and persons connected with the credit institution;

– acquiring units in investment funds;

– taking new deposits or other repayable funds from the public; or

– introducing new products;

4) impose a temporary prohibition or restriction on distributing dividends or any other form of profit, and the calculation and payment of distributions to holders of additional tier 1 instruments where the prohibition or restriction does not constitute an event of default of the credit institution;

5) limit the operations or branch network of a credit institution or request the divestment of activities that pose excessive risk to the soundness of the credit institution;

6) limit increases in a credit institution's assets and risk-bearing off-balance sheet items;

7) order the reduction of operating expenses, including restrictions on salaries and other remuneration of members of the management and supervisory board and employees of a credit institution;

8) order the implementation of measures imposing specific operating conditions on a credit institution, which may include minimum or maximum interest rates, maturities of claims and liabilities and other conditions;

9) order the sale of a credit institution's tangible and other assets;

10) order a credit institution to sell shares or holdings or to wind-up a subsidiary of the credit institution;

11) order a credit institution to adopt and implement measures to:

– change the areas of operation or the structure of services provided by the credit institution;

– limit the granting of credits;

– reduce or limit the credit institution's exposures;

– improve collection procedures concerning past due exposures;

– correctly evaluate on- and off-balance sheet items;

- improve governance arrangements in accordance with Article 101 of this Act;
 - improve the strategies and procedures in place to assess the adequacy of internal capital;
 - improve the accounting and information systems;
 - improve the internal control and internal audit systems;
- 12) order the application of a specific provisioning policy or treatment of assets in terms of own funds requirements;
 - 13) order the reduction of the risk inherent in the activities, products and systems of a credit institution;
 - 14) order a credit institution to appoint appropriate committees for specific areas of operation within the competence of the supervisory board;
 - 15) order a credit institution to improve or limit the use of a particular internal approach or model referred to in Article 114 of this Act;
 - 16) order a credit institution to limit variable remuneration as a percentage of net revenues where it is inconsistent with the maintenance of a sound capital base;
 - 17) order a credit institution to use net profits to strengthen own funds;
 - 18) order a credit institution to prepare a recovery plan;
 - 19) order a credit institution to remove from office a key function holder and appoint a new one;
 - 20) order a credit institution to implement a measure recommended by the Financial Stability Board;
 - 21) impose other measures in the course of oversight in accordance with Article 177 of this Act;
 - 22) order a credit institution to hold own funds in excess of the requirements set out in Title VII of this Act and in Regulation (EU) No 575/2013 relating to elements of risks and risks not covered by Article 1 of that Regulation;
 - 23) order a credit institution to present a plan to restore compliance with prudential requirements pursuant to this Act and to Regulation (EU) No 575/2013 and set a deadline for its implementation, including improvements to that plan regarding scope and deadline;
 - 24) impose additional and/or more frequent reporting requirements, including reporting on capital and liquidity positions;

25) impose specific liquidity requirements, including restrictions on maturity mismatches between assets and liabilities; or

26) require additional disclosures.

(2) When imposing a supervisory measure, the Croatian National Bank shall, where applicable, order a credit institution to cease the unlawful conduct and to desist from a repetition of that conduct.

Specific liquidity requirements

Article 225

(1) For the purposes of determining the appropriate level of liquidity requirements on the basis of the supervision carried out in accordance with Article 180, paragraph (1) of this Act, the Croatian National Bank shall decide whether any imposition of a specific liquidity requirement is necessary to capture liquidity risks to which a credit institution is or might be exposed.

(2) When adopting a decision referred to in paragraph (1) of this Article, the Croatian National Bank shall take into account the following:

1) the business model of the credit institution;

2) the credit institution's systems, processes and mechanisms referred to in this Act and in particular in liquidity requirements;

3) the findings of the supervision carried out in accordance with Article 180 of this Act;

4) systemic liquidity risk that threatens the stability of the financial markets of the Republic of Croatia.

Convening of the general meeting by the Croatian National Bank

Article 226

(1) Where the Croatian National Bank imposes on a credit institution a measure referred to in Article 224, 225 or 228 of this Act and the credit institution fails to fully and in a timely manner implement the measure laid down in a decision, the Croatian National Bank may convene a general meeting and propose its agenda. For the purposes of the general meeting, the Croatian National Bank shall prepare a report on the credit institution's operation based on the supervision exercised and disclose it to the credit institution's shareholders.

(2) Where the Croatian National Bank convenes a general meeting pursuant to paragraph (1) of this Article in order to increase or decrease the initial capital, it shall prepare and submit a report referred to in Article 263, paragraph (3) of the Companies Act.

(3) The general meeting shall be announced at least 30 days before its convening. The date of the announcement shall not be included in that period.

(4) Shareholders may neither submit counter-proposals nor add items to the agenda proposed by the Croatian National Bank.

Participation of a representative of the Croatian National Bank at the general meeting of a credit institution

Article 227

(1) A credit institution shall notify the Croatian National Bank of the date of convening the general meeting within the time limit prescribed for notification of the credit institution's shareholders.

(2) A representative of the Croatian National Bank may participate in the general meeting and address the credit institution's shareholders before voting.

(3) A representative of the Croatian National Bank referred to in paragraph (2) of this Article shall be appointed by a decision of the Governor of the Croatian National Bank.

Own funds requirements in excess of the minimum level

Article 228

(1) The supervisory measure referred to in Article 224, paragraph (1), item (22) of this Act shall be imposed on a credit institution by the Croatian National Bank at least in the following circumstances:

1) a credit institution has not established or does not consistently implement adequate governance arrangements in accordance with the provisions of Article 101 of this Act and risk management regulations;

2) a credit institution has not established or does not consistently implement sound administrative and accounting procedures and adequate internal control systems for identifying, managing, monitoring and reporting large exposures in accordance with the provisions of Article 393 of Regulation (EU) No 575/2013;

3) a credit institution has not established or does not consistently implement sound strategies and procedures to assess the adequacy of internal capital in accordance with the provisions of Article 113 of this Act and risk management regulations;

4) risks or elements of risks are not covered by the own funds requirements in the manner prescribed in the provisions of Title VII of this Act governing capital buffers or in Regulation (EU) No 575/2013;

5) the risks of a credit institution are likely to be underestimated despite compliance with the provisions of this Act or the provisions of Regulation (EU) No 575/2013;

6) the supervision referred to in Article 181, paragraph (4) or Article 188, paragraphs (5) and (6) of this Act reveals that the non-compliance with the requirements for the application of the respective approach will likely lead to inadequate own funds requirements;

7) the sole application of other supervisory measures is unlikely to improve the organisational structure, strategies, policies, processes and procedures within an appropriate time limit;

8) a credit institution reports to the Croatian National Bank in accordance with Article 377, paragraph (5) of Regulation (EU) No 575/2013 that the stress test results referred to in that Article materially exceed its own funds requirement for the correlation trading portfolio.

(2) The Croatian National Bank shall base the decision referred to in paragraph (1) of this Article on:

1) an assessment of the qualitative and quantitative aspects of the process and procedure for assessing internal capital adequacy in accordance with the provisions of Article 113 of this Act;

2) an assessment of governance arrangements in accordance with Article 101 of this Act and risk management regulations;

3) the findings of the supervision carried out; and

4) an assessment of systemic risk.

(3) In the decision ordering the credit institution to hold own funds in excess of the minimum level referred to in Regulation (EU) No 575/2013, Act, the Croatian National Bank may also impose other measures referred to in Article 224 of this Act.

XVIII.4 TRUSTEE

Trustee of the Croatian National Bank

Article 229

(1) The Croatian National Bank may appoint a trustee to a credit institution where it deems that a more detailed assessment and monitoring of the credit institution's financial position and operating conditions is necessary.

(2) The Croatian National Bank may in the decision to appoint a trustee appoint one or more assistants to the trustee of which one will be appointed deputy trustee.

(3) An employee of the Croatian National Bank or another person may be appointed a trustee.

(4) A trustee and assistant trustees shall have the right to receive remuneration for their work to be paid by the Croatian National Bank.

(5) The Croatian National Bank shall lay down the content of the report on the financial position referred to in Article 231 of this Act to be prepared by the trustee in the decision to appoint a trustee.

(6) The term of office of the trustee and assistant trustees shall be laid down in the decision to appoint a trustee and shall not exceed 12 months.

Trustee's powers

Article 230

(1) A credit institution shall invite the trustee to the meetings of the management and supervisory board and meetings of their bodies and shall deliver to the trustee in a timely manner all documentation relevant to follow the meetings, and the trustee shall have the right to be present at the meetings and participate in their work, but shall not have the right to vote.

(2) A trustee shall have the right to convene meetings of the management and supervisory board of the credit institution and meetings of their bodies, propose items on the agenda and submit proposals of decisions, and members of these bodies shall be obligated to attend.

(3) A trustee or assistant trustee may not transfer his powers to other persons and is responsible for his work to the Croatian National Bank.

(4) The credit institution and all its bodies shall make available to the trustee and his assistants all relevant documentation and shall provide them access to its business books.

Trustee's report on the credit institution's financial position

Article 231

(1) A trustee shall prepare a report on the credit institution's financial position and operating conditions, including an assessment of its financial stability and prospects for its continued operation (hereinafter referred to as 'the report on the financial position') and submit it to the Croatian National Bank within 30 days of appointment.

(2) The Croatian National Bank shall submit the report referred to in paragraph (1) of this Article to the credit institution to make a statement.

(3) The credit institution shall make a statement as regards to the report referred to in paragraph (1) of this Article within five working days of its receipt.

Trustee's responsibility of additional reporting

Article 232

(1) A trustee shall without delay notify the Croatian National Bank of all circumstances which under his assessment may result in the credit institution failing to comply with imposed supervisory measures and of all circumstances which under his assessment may contribute to the deterioration of the credit institution's financial position.

(2) Where a trustee establishes at any time that circumstances referred to in paragraph (1) of this Article have arisen, he shall prepare a special report thereon and submit it to the Croatian National Bank, including the proposal for the issuance of a decision to impose supervisory measures referred to in Articles 224, 226 and 228 of this Act or the proposal for the appointment of a special administration.

Actions of the Croatian National Bank based on the trustee's report on the credit institution's financial position

Article 233

(1) Pursuant to the report on the financial position the Croatian National Bank may impose on the credit institution a supervisory measure referred to in Articles 224, 226 and 228 of this Act.

(2) Where the Croatian National Bank based on the report on the financial position assesses that the credit institution's liquidity is jeopardised or that the credit institution's continued operation could jeopardise its liquidity or solvency, it may:

- 1) order the credit institution to immediately implement its recovery plan; or
- 2) appoint a special administration.

Expiry of trustee's powers

Article 234

The trustee's or assistant trustee's powers shall expire on the date:

- 1) of expiry of the period laid down in the decision on appointment;
- 2) of revocation of his appointment;
- 3) of the appointment of a special administration;
- 4) of the appointment of a liquidator; or
- 5) of the opening of bankruptcy proceedings.

XIX SPECIAL ADMINISTRATION AND SPECIAL MANAGEMENT

XIX.1 SPECIAL ADMINISTRATION

Procedures when the continued operation of a credit institution is uncertain

Article 235

(1) In cases of violations of laws and other regulations or in situations when the financial position of a credit institution is such that its continued operation is uncertain, the Croatian National Bank may:

- 1) revoke authorisation to provide particular financial services;
- 2) appoint a special administration;
- 3) revoke the credit institution's authorisation;
- 4) initiate the compulsory winding-up of the credit institution; or
- 5) submit a request to initiate bankruptcy proceedings.

(2) A credit institution that initiated voluntary winding-up proceedings or against which compulsory winding-up proceedings have been initiated or bankruptcy proceedings have been opened may not change its activity so as to cease to provide banking services and continue operating, but must close the winding-up or bankruptcy proceedings and apply for its removal from the register of companies.

Decision to appoint a special administration

Article 236

(1) The Croatian National Bank may adopt a decision to appoint a special administration in the following cases:

- 1) where it deems that the credit institution's liquidity or solvency is jeopardised or that the credit institution's continued operation could jeopardise its liquidity or solvency;
- 2) where the credit institution's management board has less than two members and its supervisory board fails to act in accordance with Article 39, paragraph (14) of this Act, or where within three months of the appointment of the deputy management board member from within its ranks it did not obtain the approval of the Croatian National Bank for the new management board member or where the management board member was not appointed by the court within that period at the request of an interested party;
- 3) where the credit institution prevents supervision of its operation in any manner whatsoever; or

4) where the credit institution fails to implement supervisory measures imposed by a decision of the Croatian National Bank.

(2) The Croatian National Bank may in the decision to appoint a special administration appoint also assistants to the special administration who will perform assistant, administrative and technical work ordered by the special administration. Assistants to a special administration shall not be members of the special administration.

(3) The decision to appoint a special administration:

- shall establish the reasons for the appointment of the special administration in the case in point;
- shall appoint a chairperson and members of the special administration and establish the scope of activities to be performed and administered by each member of the special administration;
- shall appoint assistants to the special administration;
- shall establish the duration of the special administration; and
- shall establish the content and time limits for the submission of the reports referred to in Article 244 of this Act.

(4) The special administration and its assistants shall be appointed for a period not exceeding 18 months.

Legal remedy against a decision to appoint a special administration

Article 237

(1) The former management and supervisory board of the credit institution shall have the right to appeal against a decision of the Croatian National Bank to appoint the special administration to the competent administrative court within 30 days of the delivery of the decision in question.

(2) The competent administrative court shall decide on the appeal referred to in paragraph (1) of this Article under an emergency procedure and at the latest within 30 days of its receipt.

Members and assistants of the special administration

Article 238

(1) Members and assistants of the special administration shall be appointed to and removed from office by the Croatian National Bank.

(2) The special administration of a credit institution shall have at least two members, one of which shall be appointed the chairperson of the special administration.

(3) During the period of the special administration, the Croatian National Bank may remove from office appointed members or assistants of the special administration who fail to perform their duties or fail to perform their duties in a satisfactory manner as well as for other justified reasons. In such cases, the Croatian National Bank may appoint a new member or assistant of the special administration whose term of office may not exceed the original term of office of the special administration.

(4) The rights and responsibilities of the members of the special administration shall begin on the date of the adoption of the decision to appoint the special administration regardless of the entry in the register of companies.

(5) Members of the special administration shall represent the credit institution individually.

(6) The provisions of this Act relating to the management board of a credit institution shall not apply to the special administration, with the exception of the provisions of Article 36, paragraphs (4) to (6) and Article 41, paragraphs (1) to (3) of this Act, and the provisions of this Act relating to the supervisory board of a credit institution, with the exception of the provisions of Articles 48 and 49 of this Act.

(7) Members and assistants of the special administration shall have the right to receive remuneration for their work to be paid by the Croatian National Bank.

(8) The term of office of a special administration shall be terminated on the date:

- 1) of expiry of the period to which it was appointed;
- 2) of the adoption of the decision to open bankruptcy proceedings;
- 3) of the appointment of a liquidator; or
- 4) of the appointment of deputy management board members.

(9) The term of office of assistants to the special administration shall be terminated on the date of termination of the term of office of the special administration.

Entry in the register of companies and publication of a decision to appoint a special administration

Article 239

(1) A decision to appoint a special administration shall be entered in the register of companies. At the same time, the list of persons authorised to represent the credit institution shall also be changed accordingly.

(2) An application for entry of the data referred to in paragraph (1) of this Article shall be submitted by the special administration within three working days of the adoption of the decision to appoint

the special administration of a credit institution. The decision to appoint the special administration shall be enclosed with the application.

(3) The Croatian National Bank shall deliver the decision to appoint the special administration to the credit institution, management and supervisory board members without delay.

Legal effects of a decision to appoint a special administration

Article 240

(1) On the date of the adoption of a decision to appoint the special administration of a credit institution, all the powers of the former members of the management and supervisory board shall cease and the decisions within their competence shall be adopted by the special administration.

(2) On the date of the adoption of a decision to appoint the special administration all contracts pursuant to which former management board members were employed with the credit institution shall be terminated.

(3) In the case referred to in paragraph (2) of this Article, former management board members shall not be entitled to the payment of severance pay and variable remuneration, regardless of whether such right was contracted with the credit institution or arose from another credit institution bylaw.

Liability for damage

Article 241

(1) Liability for damage caused by the special administration or its assistants in the course of performance of their duties within the framework of this Act shall exist only if the damage has been caused intentionally or as a result of gross negligence.

(2) The Croatian National Bank shall be responsible for the damage referred to in paragraph (1) of this Article.

Duty to cooperate on the part of former management board members and employees of the credit institution

Article 242

(1) Former members of the credit institution's management board and other authorised persons with special powers and responsibilities shall provide the special administration and its assistants immediate access to all business and other documentation of the credit institution and prepare a report on the transfer of operations to the special administration.

(2) Former members of the credit institution's management board shall provide the special administration or its individual member all explanations and additional reports on the credit institution's operation.

(3) All employees of the credit institution shall be required to cooperate with the special administration and its assistants.

(4) Members of the special administration shall have the right to dismiss persons who hinder their work and, as circumstances may require, request the assistance of the competent body of the Ministry of the Interior.

Activities of the special administration

Article 243

(1) The special administration shall direct the business of the credit institution.

(2) The Croatian National Bank shall be empowered to issue written orders and instructions to the special administration.

(3) Where during the term of office of the special administration the credit institution transfers deposit or credit contracts to another credit institution, such transfer may be effected without prior approval of the other contracting party to the contract being transferred.

Duties of the special administration

Article 244

(1) After its appointment the special administration shall prepare and deliver to the Croatian National Bank, within the time limit laid down by the Croatian National Bank, a report on the credit institution's financial position and operating conditions, including an assessment of its financial soundness and the prospects for its continued operation.

(2) By way of derogation from paragraph (1) of this Article, the special administration shall not be required to prepare and deliver the report referred to in paragraph (1) of this Article where the report has been prepared by the trustee pursuant to Article 231, paragraph (1) of this Act immediately prior to the appointment of the special administration.

(3) At the request of the Croatian National Bank, the special administration shall deliver additional reports and information on all matters relevant for the exercise of supervision or oversight and for assessing the credit institution's financial position and the prospects for its continued operation.

(4) The special administration shall without delay notify the Croatian National Bank of all circumstances which may contribute to the deterioration of the credit institution's financial position.

(5) The special administration shall act on the orders and instructions of the Croatian National Bank and regularly report to the Croatian National Bank on the execution of orders and instructions.

(6) The Croatian National Bank may order the special administration to convene the credit institution's general meeting with a set agenda and proposals of decisions.

(7) The special administration shall convene the general meeting at the latest within eight days of receipt of the order from the Croatian National Bank referred to in paragraph (6) of this Article.

(8) The provisions of Article 226, paragraphs (3) and (4) of this Act shall apply to the convening of the general meeting.

Appointment of deputy management board members from among the supervisory board members

Article 245

(1) Where the general meeting of a credit institution adopted a decision to select or appoint the new supervisory board members, until the appointment of the new management board members but not longer than three months, the rights and duties of the credit institution's management board shall be given to two supervisory board members appointed as deputy management board members by the supervisory board. The supervisory board shall appoint deputy management board members within two working days of the date of its appointment and shall without delay notify the Croatian National Bank thereof.

(2) Where the Articles of Association of a credit institution provide for the supervisory board to have three members, the general meeting shall select or appoint to the new supervisory board five members of which two with the term of office until the appointment of new management board members.

**XIX.2 SPECIAL MANAGEMENT AND REORGANISATION OF BRANCHES OF
THIRD-COUNTRY CREDIT INSTITUTIONS**

Decision to appoint a special management of a branch of a third-country credit institution

Article 246

(1) The Croatian National Bank shall adopt a decision to appoint a special management of a branch of a third-country credit institution providing services in the Republic of Croatia (hereinafter referred to as 'decision on a special management') in the following cases:

1) where a branch of a third-country credit institution was ordered to implement supervisory measures and it failed to begin implementing such measures or failed to implement such measures in a timely manner, owing to which its continued operation could jeopardise its liquidity or solvency and where a special management is necessary to protect the interests of its creditors;

2) where a branch of a third-country credit institution fails to meet any of the capital ratios referred to in Article 92 of Regulation (EU) No 575/2013 despite the supervisory measures imposed; or

3) where continued operation of a branch of a third-country credit institution would or could jeopardise its liquidity or solvency and it is necessary to protect the interests of its creditors.

(2) By way of derogation from the provisions of paragraph (1) of this Article, where the Croatian National Bank establishes the existence of facts indicating a high probability of improvement of the branch's position, it may postpone the adoption of a decision on a special management.

(3) A special management shall be appointed by a decision of the Croatian National Bank. The decision shall establish the reasons for the appointment of the special management in the case in point, the names of special management members, the scope of activities to be performed and/or administered by each member of the special management, and the duration of the special management, which may not exceed one year from the date of the adoption of the decision.

(4) The Croatian National Bank shall be competent to issue instructions to the special management for directing the business of the branch.

Legal remedy against a decision on a special management

Article 247

(1) The former management of a branch and a third-country credit institution (founder) shall have the right to appeal against the Croatian National Bank's decision on the special management to the administrative court within 30 days of the delivery of the decision in question.

(2) The competent administrative court shall decide on the appeal referred to in paragraph (1) of this Article under an emergency procedure and at the latest within 30 days of its receipt.

Application of the provisions of this Act to the special management of a branch of a third-country credit institution

Article 248

The provisions of Articles 238, 239, 242, 243, 244 and 245 of this Act shall apply *mutatis mutandis* to the special management of a branch of a third-country credit institution.

Legal effects of a decision on the special management

Article 249

On the date of the adoption of a decision on the special management, all the powers of the persons formerly responsible for directing the business of the branch shall cease, with the exception of the powers referred to in Article 237, paragraph (1) and Article 256, paragraph (1) of this Act.

XX WINDING-UP OF CREDIT INSTITUTIONS

XX.1 VOLUNTARY-WINDING UP OF CREDIT INSTITUTIONS

Initiation of voluntary winding-up proceedings

Article 250

- (1) A decision on the dissolution of a credit institution may be adopted at the credit institution's general meeting.
- (2) Before adopting the decision referred to in paragraph (1) of this Article, the credit institution's management and supervisory board shall consult the Croatian National Bank.
- (3) Liquidators of a credit institution shall notify the Croatian National Bank of the decision referred to in paragraph (1) of this Article on the first working day of the adoption of the decision.
- (4) Liquidators shall publish the decision referred to in paragraph (1) of this Article in the Official Gazette and at least two daily newspapers published in the Republic of Croatia.

Liquidators of a credit institution in voluntary winding-up proceedings

Article 251

- (1) A credit institution shall have at least two liquidators.
- (2) Only natural persons who meet the criteria laid down for members of the credit institution's management board in accordance with this Act may be appointed as liquidators of a credit institution.

Duties of liquidators

Article 252

- (1) Liquidators of a credit institution shall finalise pending activities, collect the claims, realise assets of the credit institution and settle obligations to creditors.
- (2) To the extent necessary for carrying out winding-up proceedings, liquidators may conclude new transactions.
- (3) By way of derogation from paragraph (2) of this Article, liquidators may not take new deposits or other repayable funds from the public.

Application of the provisions of this Act in the course of the voluntary winding-up

Article 253

- (1) The provisions of this Act shall apply *mutatis mutandis* to credit institutions undergoing voluntary winding-up proceedings.
- (2) The Croatian National Bank may adopt subordinate legislation to further regulate the manner of application of the provisions of this Act in the cases referred to in paragraph (1) of this Article.

Establishment of the grounds for bankruptcy on the part of liquidators

Article 254

Should liquidators assess in the course of voluntary winding-up proceedings that any of the grounds referred to in the Bankruptcy Act have arisen, they shall without delay submit a request to open bankruptcy proceedings and immediately notify the Croatian National Bank.

XX.2 COMPULSORY WINDING-UP OF CREDIT INSTITUTIONS

Initiation of compulsory winding-up proceedings

Article 255

(1) The Croatian National Bank shall adopt a decision to initiate the compulsory winding-up of a credit institution in the following cases:

1) where, based on the report of the special administration referred to in Article 244 of this Act, it assesses that the credit institution's financial position cannot improve under the special administration so that the credit institution attains the capital ratio in accordance with Article 92 of Regulation (EU) No 575/2013, and that it is unable to regularly settle its due obligations, provided there are no grounds for the opening of bankruptcy proceedings;

2) where the general meeting convened under Article 244, paragraph (6) of this Act refuses to adopt a decision to increase the credit institution's initial capital or fails to adopt a decision on merger by acquisition or a decision on merger by formation of a new credit institution or other, similar decision;

3) where, based on the report of the special administration referred to in Article 244 of this Act, it assesses that the credit institution's financial position has not improved during the 12-month period or, in exceptional circumstances, the 18-month period under the special administration so that the credit institution has attained the capital ratio in accordance with Article 92 of Regulation (EU) No 575/2013, and that it is unable to regularly settle its due obligations, provided there are no grounds for the opening of bankruptcy proceedings;

4) where the credit institution's authorisation has been annulled due to any of the reasons laid down in Article 69, paragraph (1) of this Act or where the credit institution's authorisation has been revoked due to any of the reasons laid down in Article 69, paragraph (2), items (2) to (4) or paragraph (3) of this Act;

5) where it assesses that the voluntary winding-up could be detrimental to the credit institution's creditors;

6) where approval for a member of the credit institution's management board has been withdrawn, where a management board member has been removed from office or failed to perform the function of a management board member for more than six months and the supervisory board failed to

appoint a new management board member in the following three months in accordance with this Act, so that the credit institution's management board does not have at least two members; or

7) where the general meeting adopts a decision to change the credit institution's activity so as to cease to provide banking services.

(2) The Croatian National Bank shall adopt a decision to initiate the compulsory winding-up at the latest within 30 days from the following:

1) in the case referred to in paragraph (1), item (1) of this Article, the expiry of the date of establishing the inability to improve the credit institution's financial position by appointing a special administration;

2) in the case referred to in paragraph (1), item (2) of this Article, the expiry of the date of convening the general meeting;

3) in the case referred to in paragraph (1), item (3) of this Article, the expiry of the date of establishing that the credit institution's financial position has not, despite the appointment of a special administration, improved in the manner required under this Act;

4) in the case referred to in paragraph (1), item (5) of this Article, the expiry of the date of establishing that the voluntary winding-up would be detrimental to the credit institution's creditors;

5) in the case referred to in paragraph (1), item (6) of this Article, the expiry of the three-month period in which a new management board member has not been appointed; or

6) in the case referred to in paragraph (1), item (7) of this Article, the expiry of the date of convening the general meeting.

(3) In the case referred to in paragraph (1), item (4) of this Article, the Croatian National Bank shall adopt a decision to annul or revoke the credit institution's authorisation at the same time as it adopts a decision to initiate compulsory winding-up proceedings.

Legal remedy against a decision on the compulsory winding-up

Article 256

(1) The former management and supervisory board of the credit institution shall have the right to appeal against a decision of the Croatian National Bank to initiate the compulsory winding-up of the credit institution to the competent administrative court within 30 days of the delivery of the decision in question.

(2) The competent administrative court shall decide on the appeal referred to in paragraph (1) of this Article under an emergency procedure and at the latest within 30 days of its receipt.

Publication of a decision on the compulsory winding-up

Article 257

(1) The Croatian National Bank shall deliver a decision on the compulsory winding-up of a credit institution to the institution responsible for deposit insurance on the date of the adoption of the decision.

(2) The Croatian National Bank shall publish a decision to initiate the compulsory winding-up in the Official Gazette and at least two daily newspapers published in the Republic of Croatia.

Liquidators in compulsory winding-up proceedings

Article 258

(1) Within 24 hours of receipt of the decision referred to in Article 255 of this Act, the institution responsible for deposit insurance shall appoint two or more liquidators.

(2) Only persons who meet the criteria laid down for members of the credit institution's management board in accordance with this Act may be appointed as liquidators.

Legal effects of the compulsory winding-up

Article 259

(1) On the date of the appointment of liquidators, all the powers of the former members of the credit institution's management and supervisory board and of its general meeting shall cease, with the exception of the powers of the former management and supervisory board referred to in Article 256, paragraph (1) of this Act.

(2) In the course of compulsory winding-up proceedings, the powers of the credit institution's supervisory board and of its general meeting shall be exercised by the institution responsible for deposit insurance.

Reports on progress in compulsory winding-up proceedings

Article 260

At the request of the Croatian National Bank, liquidators shall deliver a report on progress in winding-up proceedings.

Establishment of the grounds for bankruptcy on the part of liquidators

Article 261

Should liquidators assess in the course of compulsory winding-up proceedings that any of the grounds referred to in the Bankruptcy Act have arisen, they shall without delay submit a request to open bankruptcy proceedings and immediately notify the Croatian National Bank.

Application of the provisions of this Act and the Companies Act in the course of the compulsory winding-up

Article 262

- (1) The provisions of the Companies Act governing the winding-up of companies shall apply *mutatis mutandis* to credit institutions undergoing compulsory winding-up proceedings.
- (2) The provisions of this Act shall apply *mutatis mutandis* to credit institutions undergoing compulsory winding-up proceedings.
- (3) The Croatian National Bank may adopt subordinate legislation to further regulate the manner of application of the provisions of this Act in the cases referred to in paragraph (2) of this Article.

XX.3 WINDING-UP OF BRANCHES OF THIRD-COUNTRY CREDIT INSTITUTIONS

Application of the provisions of this Act in the course of the winding-up of branches of third-country credit institutions

Article 263

- (1) The provisions of Articles 251 to 262 of this Act shall apply *mutatis mutandis* to branches of third-country credit institutions undergoing winding-up proceedings.
- (2) In addition to the reasons referred to in Article 255, paragraph (1) of this Act, the Croatian National Bank shall adopt a decision to initiate the compulsory winding-up of a branch of a third-country credit institution if the branch fails to comply with the order of the Croatian National Bank referred to in Article 91, paragraph (4) of this Act.

XXI BANKRUPTCY OF CREDIT INSTITUTIONS

XXI.1 BANKRUPTCY OF CREDIT INSTITUTIONS

Application of the provisions of the Bankruptcy Act

Article 264

The provisions of the Bankruptcy Act shall apply *mutatis mutandis* to bankruptcy of credit institutions, unless otherwise prescribed in this Act.

Request to open bankruptcy proceedings

Article 265

(1) A request to open bankruptcy proceedings against a credit institution may be submitted only by the Croatian National Bank or the liquidator.

(2) The liquidator of a credit institution may submit a request to open bankruptcy proceedings against a credit institution on the grounds for bankruptcy referred to in the Bankruptcy Act.

(3) The Croatian National Bank may submit a request to open bankruptcy proceedings against a credit institution on the grounds referred to in Article 266 of this Act.

Grounds for bankruptcy

Article 266

Bankruptcy proceedings against a credit institution may be opened pursuant to the request to open bankruptcy proceedings submitted by the Croatian National Bank only after establishing the existence of one of the following grounds for bankruptcy:

1) where the Croatian National Bank issued a decision on the unavailability of deposits referred to in Article 70 of this Act, and the unavailability of deposits has not occurred due to the adoption of a decision on the submission of a request to open bankruptcy proceedings against a credit institution in accordance with Article 267 of this Act;

2) where the account of the credit institution has been blocked for longer than two working days under the order of the Financial Agency in accordance with the law governing the execution of cash assets;

3) where the credit institution's assets do not cover its existing obligations;

4) where the Croatian National Bank establishes that despite the imposed supervisory measures referred to in this Act or despite the measures taken by the special administration the credit institution fails to meet the conditions relating to own funds in accordance with Article 92 of Regulation (EU) No 575/2013; or

5) where the Croatian National Bank within its supervisory powers deems that the credit institution's ability to meet its financial obligations in a timely manner is jeopardised and where it deems that it is likely that the credit institution will be unable to meet its due and payable financial obligations.

Temporary restrictions

Article 267

(1) In accordance with the Act on the Croatian National Bank, the decision on the submission of a request to open bankruptcy proceedings against a credit institution shall be adopted by the Council of the Croatian National Bank.

(2) The decision of the Council of the Croatian National Bank on the submission of the request to open bankruptcy proceedings against a credit institution shall have the following effects:

1) temporary restriction of executions of orders for forced collection of payments debited to the credit institution's account in accordance with the law governing the execution of cash assets;

2) temporary restriction of credit institution's payments from all its accounts;

3) temporary restriction of credit institution's payments and transfers from the accounts of its clients;

4) temporary restriction of credit institution's provision of payment services via payment cards; and

5) temporary restriction of all payments to the accounts of the credit institution and the accounts of its clients.

(3) The Croatian National Bank shall immediately publish on its website the notification of the decision of the Council of the Croatian National Bank on the submission of the request to open bankruptcy proceedings against a credit institution. The notification shall specify the date, hour and minute of the adoption of the decision. The Croatian National Bank shall without delay publish the notification in question in at least two daily newspapers published in the Republic of Croatia, including the information on the effects referred to in paragraph (2) of this Article.

(4) The date, hour and minute of the adoption of the Council decision on the submission of the request to open bankruptcy proceedings shall be the moment of the opening of insolvency proceedings against that credit institution in terms of the law governing settlement finality in payment systems.

(5) The Croatian National Bank shall without delay deliver the notification of the decision of the Council of the Croatian National Bank on the submission of the request to open bankruptcy proceedings against the credit institution to the Financial Agency and the credit institution via fax or email.

(6) The credit institution's trustee in bankruptcy in the name of the credit institution and bankruptcy creditors shall have the right to challenge all payments, transfers and payment transactions effected contrary to the temporary restrictions referred to in paragraph (2) of this Article after the point in time referred to in paragraph (3) of this Article.

(7) Where at the point in time when the Council of the Croatian National Bank adopted the decision on the submission of the request to open bankruptcy proceedings against the credit institution a special administration of that credit institution was appointed in accordance with Article 236, paragraph (1) of this Act, it shall upon the delivery of the notification referred to in paragraph (3) of this Article continue its work with the duties referred to in Article 268 of this Act.

(8) Where at the point in time when the Council of the Croatian National Bank adopted the decision on the submission of the request to open bankruptcy proceedings against the credit institution a

special administration of that credit institution was not appointed in accordance with Article 236, paragraph (1) of this Act, the Croatian National Bank shall at the same time appoint a special administration.

(9) The Croatian National Bank may withdraw the request to open bankruptcy proceedings which terminates the legal effects of the decision of the Council of the Croatian National Bank.

(10) The legal effects of the decision of the Council of the Croatian National Bank on the submission of the request to open bankruptcy proceedings shall be terminated:

1) on the date, hour and minute of the opening of the bankruptcy proceedings; or

2) upon the expiry of the period of two working days from the issuing of the decision on the dismissal of the request to open bankruptcy proceedings or the decision on the refusal to open bankruptcy proceedings.

(11) By way of derogation from paragraph (2) of this Article, subject to the approval of the Croatian National Bank, a special administration may execute payments from cash assets of the credit institution only if such payments are necessary to protect the credit institution's assets.

(12) Where the credit institution has not sufficient cash assets, all payments necessary to protect the credit institution's assets shall be settled by the Croatian National Bank in the name and for the account of the credit institution.

Duties of the special administration

Article 268

Following the delivery of the notification referred to in Article 267, paragraph (3) of this Act the special administration shall:

1) protect and manage the credit institution's assets;

2) continue to direct the business of the credit institution; and

3) at the request of the bankruptcy judge, examine whether the credit institution's assets are sufficient to cover the costs of bankruptcy proceedings.

Request of the Croatian National Bank to open bankruptcy proceedings

Article 269

(1) The Croatian National Bank shall submit to the competent commercial court a request to open bankruptcy proceedings at the latest on the first working day of the adoption of the decision by the Council of the Croatian National Bank to submit a request to open bankruptcy proceedings against a credit institution.

(2) In the request to open bankruptcy proceedings the Croatian National Bank shall state the facts and circumstances giving rise to the existence of any of the grounds for bankruptcy referred to in Article 266 of this Act.

(3) When the Croatian National Bank submits a request to open bankruptcy proceedings no preliminary proceedings shall be carried out. Within eight days of receipt of the request to open bankruptcy proceedings the bankruptcy judge shall set a court date for the hearing as regards the conditions for the opening of bankruptcy proceedings.

(4) The bankruptcy judge shall issue a decision on the opening of bankruptcy proceedings or refuse the request to open such proceedings within 30 days of the date when the request to open bankruptcy proceedings was submitted.

Collateral promise

Article 270

The procedure of opening bankruptcy proceedings shall not be subject to the provisions of the Bankruptcy Act governing collateral promise.

Invitation to the Croatian National Bank

Article 271

Where a request to open bankruptcy proceedings has not been submitted by the Croatian National Bank, the bankruptcy judge shall invite a representative of the Croatian National Bank to all hearings in preliminary proceedings in order to hear his/her statement and shall deliver all adopted decisions to the Croatian National Bank.

Appointment of a trustee in bankruptcy

Article 272

(1) The person who may be appointed trustee in bankruptcy of a credit institution shall in addition to the conditions provided for in the Bankruptcy Act also possess the knowledge of and the experience in banking operations.

(2) Prior to appointing a trustee in bankruptcy of a credit institution, a bankruptcy judge shall hear a representative of the Croatian National Bank on the qualities required of a person to be appointed trustee in bankruptcy.

Repayment of required reserves

Article 273

(1) After the opening of bankruptcy proceedings against a credit institution and his/her appointment, a trustee in bankruptcy shall within three days of the opening of bankruptcy proceedings submit a request to the Croatian National Bank for the repayment of required reserves.

(2) The Croatian National Bank shall act on the request referred to in paragraph (1) of this Article during the next calculation period.

Claims of bankruptcy creditors with higher priority claims

Article 274

(1) The claims of the first level of higher priority shall include gross claims of the credit institution's employees and former employees arising from the employment relationship up to the date of the opening of bankruptcy proceedings, severance payments up to the amount laid down by law or collective agreement and claims for damages due to industrial injury or occupational disease.

2) The claims of the second level of higher priority shall include claims of the Croatian National Bank.

3) The claims of the third level of higher priority shall include claims of the institution responsible for deposit insurance based on deposits insured in accordance with a special law.

(4) The claims of the fourth level of higher priority shall include all other claims against the credit institution apart from:

– those classified into lower priority claims; and

– those for which creditors and the credit institution agreed that in bankruptcy proceedings the creditors will be settled after all other creditors with higher and lower priority claims and in the agreed upon manner.

Notification to the Croatian National Bank

Article 275

A bankruptcy judge shall deliver a decision on the stay and closure of bankruptcy proceedings against a credit institution to the Croatian National Bank as well.

XXI.2 BANKRUPTCY OF BRANCHES OF THIRD-COUNTRY CREDIT INSTITUTIONS

Application of the provisions of this Act to the bankruptcy of branches of third-country credit institutions

Article 276

The provisions of Articles 264 to 275 of this Act governing the bankruptcy of credit institutions shall apply *mutatis mutandis* to the bankruptcy of branches of third-country credit institutions.

XXII SUPERVISION ON A CONSOLIDATED BASIS

Supervision on a consolidated basis

Article 277

In addition to exercising supervision of credit institutions in the Republic of Croatia on an individual basis, the Croatian National Bank shall exercise supervision of groups of credit institutions in the Republic of Croatia on a consolidated basis.

Group of credit institutions in the Republic of Croatia

Article 278

(1) A group of credit institutions in the Republic of Croatia (hereinafter referred to as 'group of credit institutions in the RC') shall include credit and financial institutions having their head office in the Republic of Croatia or in another country, within which at least one institution has the status of:

- 1) an RC parent credit institution;
- 2) an RC parent financial holding company of which at least one credit institution subsidiary has been authorised by the Croatian National Bank;
- 3) an RC parent mixed financial holding company of which at least one credit institution subsidiary has been authorised by the Croatian National Bank; or
- 4) a credit institution authorised by the Croatian National Bank which is linked by management on a unified basis with another credit or financial institution in the manner referred to in Article 15, paragraph (1), items (1) and (3) of this Act.

(2) The Croatian National Bank may in particular cases specify in a decision that a group of credit institutions in the RC also includes credit and financial institutions linked in the manner referred to in Article 15, paragraph (1), item (2) of this Act.

(3) A group of credit institutions in the RC shall also exist where the same RC or EU parent financial holding company which has its head office in the Republic of Croatia, or the RC or EU parent mixed financial holding company which has its head office in the Republic of Croatia, in addition to having a credit institution subsidiary which has its head office in the Republic of Croatia, has as subsidiaries credit institutions of other countries.

(4) A group of credit institutions in the RC shall also exist where a credit institution which has its head office in the Republic of Croatia is a subsidiary of more than one financial holding company

or more than one mixed financial holding company with head offices in the RC and other Member States, and there is a credit institution subsidiary in each of these States, and the credit institution which has its head office in the Republic of Croatia has the largest balance sheet total relative to the credit institutions in other Member States.

(5) A group of credit institutions in the RC shall also exist where one or more credit institutions with head offices in the Republic of Croatia have as their parent the same EU parent financial holding company or the same EU parent mixed financial holding company having its head office in another Member State, or where both a credit institution which has its head office in the Republic of Croatia and credit institutions of other countries have as their parent the same EU parent financial holding company or the same EU parent mixed financial holding company having its head office in another Member State and none of these credit institutions has been authorised in the Member State in which the financial holding company or mixed financial holding company was established, and the credit institution which has its head office in the Republic of Croatia has the largest balance sheet total relative to the credit institutions in other Member States.

Special cases of inclusion in a group of credit institutions in the RC

Article 279

(1) The Croatian National Bank may require an RC parent credit institution, a legal person that is neither a credit nor financial institution or a credit institution that is linked with such a legal person in the manner referred to in Article 15 of this Act, to include in a group of credit institutions in the RC all members of the group and to carry out consolidation in accordance with this Act and the regulations of the European Union governing the operation of credit institutions of all members of the group regardless of their activity, where this is relevant for a comprehensive and objective presentation of the credit institution's financial position and operating results.

(2) In the cases referred to in paragraph (1) of this Article, the Croatian National Bank shall issue a decision to determine how consolidation is to be carried out.

Assumption and delegation of responsibility for supervision on a consolidated basis

Article 280

(1) The Croatian National Bank may in the particular cases referred to in Article 278, paragraphs (3), (4) and (5) of this Act, taking into account the relative importance of activities in other Member States of individual members of a group of credit institutions in the RC, by common agreement with the competent authorities of these Member States, assume the responsibility for supervision on a consolidated basis from the competent authority of a Member State in which another credit institution within the group has its head office.

(2) The Croatian National Bank may in the particular cases referred to in Article 278, paragraphs (3), (4) and (5) of this Act, taking into account the relative importance of activities in other Member States of individual members of a group of credit institutions in the RC, by common agreement with the competent authorities of these Member States, delegate the responsibility for supervision

on a consolidated basis to the competent authority of a Member State in which another credit institution within the group has its head office.

(3) Before adopting a decision to delegate the responsibility referred to in paragraph (2) of this Article, the Croatian National Bank shall give the EU parent credit institution, EU parent financial holding company, EU parent mixed financial holding company, or credit institution with the largest balance sheet total, as appropriate, an opportunity to state its opinion on that decision.

Inclusion of holding companies in supervision on a consolidated basis

Article 281

(1) Subsidiary members of a group of credit institutions in the RC, the parent mixed financial holding company referred to in Article 278, paragraphs (1) and (3) to (5) of this Act and the parent financial holding company referred to in Article 278, paragraphs (1) and (3) to (5) of this Act shall:

- 1) deliver the data relevant for the purposes of consolidation;
- 2) ensure adequate internal control procedures to verify the correctness of such data and information; and
- 3) deliver the data relevant to determine the scope of consolidation to an RC parent credit institution or the credit institution referred to in Article 97, paragraph (2) of this Act.

(2) An RC parent credit institution or the credit institution referred to in Article 97, paragraph (2) of this Act shall ensure that subsidiary credit institutions, the parent mixed financial holding company and the parent financial holding company deliver to it the data relevant for the purposes of consolidation. If the parent mixed financial holding company or the parent financial holding company fails to deliver the data relevant for the purposes of consolidation, the credit institution shall notify the Croatian National Bank without delay.

(3) Subsidiary members of a group of credit institutions in the RC, the parent mixed financial holding company referred to in Article 278, paragraphs (1) and (3) to (5) of this Act and the parent financial holding company referred to in Article 278, paragraphs (1) and (3) to (5) of this Act shall enable the Croatian National Bank, as the competent authority responsible for supervision on a consolidated basis, to exercise supervision of their operations for the purpose of verifying the information referred to in paragraphs (1) and (2) of this Article.

(4) The parent undertaking of a credit institution which has its head office in the Republic of Croatia and is not included in supervision on a consolidated basis of the parent undertaking pursuant to Article 19 of Regulation (EU) No 575/2013 shall, at the request of the Croatian National Bank, deliver information which would be relevant for the purpose of supervising that credit institution.

(5) The legal person referred to in Article 19 of Regulation (EU) No 575/2013 which is a subsidiary of an RC parent credit institution, the mixed financial holding company referred to in Article 278, paragraphs (1) and (3) to (5) of this Act or the financial holding company referred to in Article 278,

paragraphs (1) and (3) to (5) of this Act, and which is not included in supervision on a consolidated basis, shall, at the request of the Croatian National Bank, deliver information which would be relevant for the purpose of supervising individual credit institutions within the group of credit institutions in the RC, and enable the carrying out of on-site examinations to verify the information delivered.

(6) Where the person referred to in paragraph (5) of this Article has its head office in another Member State, the examinations referred to in paragraph (5) of this Article shall be carried out in accordance with Article 295 of this Act.

Supplementary supervisory tasks on a consolidated basis

Article 282

(1) In cases where the Croatian National Bank is the consolidating supervisor, in addition to the obligations imposed by the provisions of this Act and Regulation (EU) No 575/2013, the Croatian National Bank shall carry out the following tasks:

1) coordination of the gathering and dissemination of relevant or essential information between the competent authorities involved in supervision on a consolidated basis in going concern and emergency situations;

2) planning and coordination of supervisory activities in going-concern situations, including in relation to the activities of supervision on a consolidated basis, in cooperation with the competent authorities involved; and

3) planning and coordination of supervisory activities in cooperation with the competent authorities involved, and if necessary with the central banks of the European System of Central Banks, in preparation for and during emergency situations, including adverse developments in credit institutions or in financial markets using, where possible, existing defined channels of communication for facilitating crisis management. The planning and coordination of supervisory activities includes exceptional measures referred to in Article 288, paragraph (5), item (4) of this Act, the preparation of joint assessments, the implementation of contingency plans and communication to the public.

(2) Where the competent authorities involved in supervision on a consolidated basis fail to cooperate with the Croatian National Bank in the manner that ensures the fulfilment of obligations referred to in paragraph (1) of this Article, in cases where the Croatian National Bank is the consolidating supervisor, the Croatian National Bank may refer the matter to the European Banking Authority and request its assistance in accordance with Article 19, paragraph (1) of Regulation (EU) No 1093/2010.

(3) In cases where the Croatian National Bank is not the consolidating supervisor and the consolidating supervisor fails to fulfil the obligations equivalent to the obligations referred to in paragraph (1) of this Article, the Croatian National Bank may refer the matter to the European

Banking Authority and request its assistance in accordance with Article 19, paragraph (1) of Regulation (EU) No 1093/2010.

College of supervisors

Article 283

(1) Where the Croatian National Bank is the consolidating supervisor, it shall establish a college of supervisors to facilitate the exercise of the tasks referred to in Articles 282, 284 and 286 of this Act. When a member of a group is situated in a third country or has branches in a third country, the Croatian National Bank shall, subject to the provisions of Article 209 of this Act and compatibility with Croatian law, ensure appropriate coordination and cooperation with relevant third-country competent authorities.

(2) The college of supervisors shall provide a framework for the Croatian National Bank, the European Banking Authority and the other competent authorities concerned to carry out the following tasks:

1) exchanging information, whereby the exchange of information with the European Banking Authority is carried out in accordance with Article 21 of Regulation (EU) No 1093/2010;

2) agreeing on voluntary entrustment of tasks and voluntary delegation of responsibilities where appropriate;

3) determining supervisory examination programmes based on a risk assessment of the group of credit institutions;

4) increasing the efficiency of supervision by removing duplication of supervisory requirements, including in relation to the information requests referred to in Article 286 and Article 288, paragraph (6) of this Act;

5) consistently applying the prudential requirements under this Act and Regulation (EU) No 575/2013 across all members within a group of credit institutions without prejudice to the options and discretions available in the regulations of the European Union governing the operation of credit institutions; and

6) applying the provisions of Article 282, paragraph (1), item (3) of this Act taking into account the work of other forums that may be established in this area.

(3) The Croatian National Bank shall cooperate closely with other competent authorities participating in the college of supervisors and the European Banking Authority taking into account the responsibilities of the competent authorities. The establishment and functioning of the college shall not affect the responsibilities of the Croatian National Bank under this Act and Regulation (EU) No 575/2013.

(4) The establishment and functioning of the college shall be based on written arrangements referred to in Article 287 of this Act, determined after consulting the competent authorities concerned by the Croatian National Bank as the consolidating supervisor.

(5) The Croatian National Bank as the consolidating supervisor may also invite the following to participate in the activities of the college:

– the competent authorities of other Member States in which a member of a group of credit institutions in the RC has its head office;

– the competent authorities of other Member States where significant branches of a credit institution which has its head office in the Republic of Croatia are established; and

– central banks of other Member States, where appropriate.

(6) In addition to the authorities referred to in paragraph (5) of this Article, the Croatian National Bank may, where appropriate and subject to confidentiality requirements that are equivalent, in the opinion of all competent authorities, to the requirements relating to the duty to protect the confidentiality of information under Article 208 of this Act, also invite third countries' competent authorities to participate in the college.

(7) The Croatian National Bank as the consolidating supervisor shall chair the meetings of the college and shall decide which competent authorities participate in a meeting and/or in an activity of the college. The Croatian National Bank shall keep all members of the college fully informed, in a timely manner, of:

– the time and place of such meetings, the main issues to be discussed and the activities to be considered; and

– the actions taken in those meetings or the measures carried out.

(8) The Croatian National Bank as the consolidating supervisor shall take account of the relevance of the supervisory activity to be planned for those authorities, in particular the potential impact on the stability of the financial system in the Member States concerned and the obligations referred to in Article 204, paragraphs (5) and (6) of this Act.

(9) Subject to the provisions of this Act on the confidentiality of information, the Croatian National Bank as the consolidating supervisor shall inform the European Banking Authority of the activities of the college of supervisors, including in emergency situations, and shall communicate to it all information that is of particular relevance for the purposes of supervisory convergence.

(10) In the event of a disagreement between competent authorities on the functioning of supervisory colleges, the Croatian National Bank may refer the matter to the European Banking Authority and request its assistance in accordance with Article 19 of Regulation (EU) No 1093/2010.

(11) Where the European Banking Authority in accordance with Article 21 of Regulation (EU) No 1093/2010 participates in the work of the college of supervisors, it shall be considered the competent authority.

Joint decisions on institution-specific prudential requirements where the Croatian National Bank is the consolidating supervisor

Article 284

(1) The Croatian National Bank as the consolidating supervisor and the competent authorities of the other Member States in which there are head offices of other undertakings included in a group of credit institutions in the RC shall cooperate to reach a joint decision:

1) in the field of the supervision and assessment of the adequacy of procedures in place to assess and maintain internal capital to determine the adequacy of the consolidated level of own funds held by the group of credit institutions in the RC with respect to its financial situation and risk profile and the imposition of a higher required level of own funds in accordance with Article 224, paragraph (1), item (22) of this Act to each member of the group of credit institutions in the RC and on a consolidated basis; and

2) on the imposition of measures to address any material findings related to liquidity supervision including relating to the adequacy of the organisation and the management of risks, as well as on measures imposed on individual credit institutions in accordance with Articles 224 and 228 of this Act.

(2) Based on the supervision exercised and the assessment of the adequacy of procedures in place to assess and maintain internal capital of a group of credit institutions in the RC, the Croatian National Bank shall submit a report containing the risk assessment of the group of credit institutions in the RC to the competent authorities of the other Member States in which there are head offices of other undertakings included in the group of credit institutions in the RC.

(3) Based on the supervision exercised and assessment the Croatian National Bank shall submit a report containing the assessment of the liquidity risk profile of the group of credit institutions in the RC.

(4) The joint decision referred to in paragraph (1), item (1) of this Article shall be reached within four months after submission of the report referred to in paragraph (2) of this Article. The joint decision shall also duly consider the risk assessment of the members of the group of credit institutions in the RC performed by relevant competent authorities of other Member States. This decision must be written and fully reasoned. The Croatian National Bank shall deliver this decision to the EU parent credit institution.

(5) The joint decision referred to in paragraph (1), item (2) of this Article shall be reached within one month after submission of the report referred to in paragraph (3) of this Article. The joint decision shall also duly consider the risk assessment of the members of the group of credit institutions in the RC performed by relevant competent authorities of other Member States. This

decision must be written and fully reasoned. The Croatian National Bank shall deliver this decision to the EU parent credit institution.

(6) In the event of a disagreement on the joint decision referred to in paragraph (1) of this Article, the Croatian National Bank shall at the request of any of the other competent authorities concerned consult the European Banking Authority. The Croatian National Bank may consult the European Banking Authority on its own initiative.

(7) In the absence of a joint decision within the time period referred to in paragraph (4) or (5) of this Article, a decision referred to in paragraph (1) of this Article shall be taken on a consolidated basis by the Croatian National Bank after duly considering the risk assessment of the members of the group of credit institutions in the RC performed by relevant competent authorities. The Croatian National Bank shall take a decision on each member of the group within its competence.

(8) By way of derogation from paragraph (7) of this Article, where within four months of the submission of the report referred to in paragraph (2) of this Article or within one month of the submission of the report referred to in paragraph (3) of this Article and prior to the reaching of a joint decision, the Croatian National Bank or any other competent authority of other Member States has referred the matter to the European Banking Authority and where the European Banking Authority takes a decision within one month, the Croatian National Bank shall adopt a decision in conformity with that decision.

(9) In the case referred to in paragraph (7) of this Article, the decisions of all competent authorities for individual members of the group shall be set out in a single document containing the fully reasoned decisions and shall take into account the risk assessment for each member of the group of credit institutions in the RC, and views and reservations expressed during the time period referred to in paragraph (4) or (5) of this Article. The Croatian National Bank shall deliver the document to all competent authorities referred to in paragraph (1) of this Decision and to the EU parent credit institution.

(10) In the case referred to in paragraph (7) of this Article, all competent authorities shall consider the advice of the European Banking Authority, and explain any significant deviation therefrom.

(11) The decisions referred to in paragraph (4), (5), (7) or (8) of this Article shall be recognised as determinative and applied by all the authorities referred to in paragraph (1) of this Article. Based on the decisions referred to in paragraph (4), (5), (7) or (8) of this Article, the Croatian National Bank shall take a decision and deliver it to the member of the group of credit institutions in the RC within its competence.

(12) The Croatian National Bank shall update the decisions referred to in paragraph (4), (5), (7) or (8) of this Article on an annual basis at a minimum.

(13) By way of derogation from paragraph (12) of this Article, the Croatian National Bank shall update the decisions referred to in paragraph (1) of this Article if the competent authority of another Member State makes a written and fully reasoned request to the Croatian National Bank to update the decision. The update may be addressed on a bilateral basis between the Croatian National Bank and the competent authority making the request.

Joint decisions on institution-specific prudential requirements where the Croatian National Bank is not the consolidating supervisor

Article 285

(1) Where the competent authority of another Member State is the consolidating supervisor of a group of credit institutions in the EU, the Croatian National Bank shall participate in the process of reaching a joint decision:

1) in the field of the supervision and assessment of the adequacy of procedures in place to assess and maintain internal capital to determine the adequacy of the consolidated level of own funds held by the group of credit institutions in the EU with respect to its financial situation and risk profile and the imposition of a higher required level of own funds in accordance with Article 224, paragraph (1), item (22) of this Act to each member of the group of credit institutions in the EU and on a consolidated basis; and

2) on the imposition of measures to address any material findings related to liquidity supervision including relating to the adequacy of the organisation and the management of risks, as well as on measures imposed on individual credit institutions in accordance with Articles 224 and 228 of this Act.

(2) Based on the supervision exercised and the assessment of the adequacy of procedures in place to assess and maintain internal capital of a member of the group of credit institutions in the EU within its competence, the Croatian National Bank shall prepare a report containing the risk assessment of that member and a report containing the assessment of the liquidity risk profile and submit it to the consolidating supervisor.

(3) If the joint decision referred to in paragraph (1) of this Article is reached, the Croatian National Bank shall adopt an appropriate decision and deliver it to a member of the group of credit institutions in the EU within its competence.

(4) In the event of a disagreement on the joint decision referred to in paragraph (1) of this Article, the Croatian National Bank may submit a request to the consolidating supervisor to consult the European Banking Authority.

(5) Where, at the request of the consolidating supervisor, the European Banking Authority has been consulted on the decision referred to in paragraph (1) of this Article, the Croatian National Bank shall consider such advice when taking a decision referred to in paragraph (6) of this Article, and explain any significant deviation therefrom.

(6) In the absence of a joint decision referred to in paragraph (1), item (1) of this Article within four months after submission by the consolidating supervisor of a report containing the risk assessment of the group of credit institutions in the EU or in the absence of a joint decision referred to in paragraph (1), item (2) of this Article within one month after submission by the consolidating supervisor of a report containing the assessment of the liquidity risk profile, the Croatian National Bank shall take the decision referred to in paragraph (1) of this Article on each member of the

group or on a sub-consolidated basis for the group within its competence after duly considering the views and reservations expressed by the consolidating supervisor.

(7) By way of derogation from paragraph (6) of this Article, where the Croatian National Bank or another competent authority of a Member State, within four months of the submission by the consolidating supervisor of a report containing the risk assessment of the group of credit institutions in the EU or in the absence of a joint decision referred to in paragraph (1), item (2) of this Article within one month after submission by the consolidating supervisor of a report containing the assessment of the liquidity risk profile, and prior to the reaching of a joint decision, has referred the matter to the European Banking Authority and where the European Banking Authority takes a decision within one month, the Croatian National Bank shall adopt a decision in conformity with that decision.

(8) The Croatian National Bank may make a written and fully reasoned request to the consolidating supervisor to update the decision referred to in paragraph (1) of this Article.

(9) The Croatian National Bank shall update the decisions referred to in paragraph (6) or (7) of this Article on an annual basis at a minimum.

Notification of an emergency situation

Article 286

(1) Where the Croatian National Bank is the consolidating supervisor and an emergency situation arises, including the situation referred to in Article 18 of Regulation (EU) No 1093/2010 or a situation of adverse developments in markets, which potentially jeopardises the market liquidity and the stability of the financial system in any of the Member States where the members of a group of credit institutions have been authorised or where significant branches of a credit institution established in the Republic of Croatia provide services, the Croatian National Bank shall immediately notify the European Banking Authority, the persons referred to in Article 210, paragraph (1), item (1) and Article 211, paragraph (1) of this Act and the European Systemic Risk Board and shall communicate all information essential for the pursuance of their tasks.

(2) Where the Croatian National Bank is not the consolidating supervisor and where it, within the framework of its competence under law, becomes aware that the emergency situation referred to in paragraph (1) of this Article may arise, it shall notify the consolidating supervisor in another Member State using existing defined channels of communication.

(3) Where the Croatian National Bank is the competent authority responsible for supervision on a consolidated basis and needs information on a group of credit institutions which has already been given to another competent authority, the Croatian National Bank shall contact this authority whenever possible in order to prevent duplication of reporting to the various competent authorities involved in supervision.

Coordination and cooperation agreements

Article 287

(1) In order to facilitate and establish effective supervision on a consolidated basis, the Croatian National Bank shall conclude written coordination and cooperation agreements with the other competent authorities involved in supervision.

(2) Under the agreements referred to in paragraph (1) of this Article, additional tasks may be entrusted to the competent authority responsible for supervision on a consolidated basis and procedures for the decision-making process and for cooperation with other competent authorities may be specified.

(3) The Croatian National Bank may, by bilateral agreement, in accordance with Article 28 of Regulation (EU) No 1093/2010 delegate its responsibility for supervision to the competent authorities which authorised and supervise the parent credit institution so that they assume responsibility for supervising the subsidiary credit institution which has its head office in the Republic of Croatia.

(4) The Croatian National Bank may, by bilateral agreement, in accordance with Article 28 of Regulation (EU) No 1093/2010 assume responsibility for supervision of a credit institution in a Member State the parent undertaking of which is a credit institution which has its head office in the Republic of Croatia from the competent authorities which authorised and supervise the credit institution.

Exchange of information between the competent authorities of the Member States

Article 288

(1) The Croatian National Bank shall cooperate with the competent authorities of other Member States and provide them with any information which is essential or relevant for the exercise of supervisory tasks in accordance with this Act and Regulation (EU) No 575/2013. In that regard, the Croatian National Bank shall communicate to other competent authorities:

1) on request, all relevant information or all information related to the exercise of the other authorities' supervisory tasks; or

2) on its own initiative, all essential information if it could materially influence the assessment of the financial soundness of a credit institution or financial institution in another Member State.

(2) The Croatian National Bank shall cooperate with the European Banking Authority for the purposes of implementing this Act and Regulation (EU) No 575/2013 and in accordance with Regulation (EU) No 1093/2010 and shall provide it with the information necessary to carry out its tasks under Regulation (EU) No 1093/2010 in the manner governed by Article 35 of Regulation (EU) No 1093/2010.

(3) The Croatian National Bank may refer to the European Banking Authority any of the following situations:

- a) where a competent authority has not communicated essential information; and
- b) where another competent authority has rejected a request for cooperation or has not acted upon a request for cooperation within a reasonable time, in particular upon a request to exchange relevant information.

(4) Where the Croatian National Bank is the competent authority responsible for consolidated supervision of an EU parent credit institution, a credit institution controlled by an EU parent mixed financial holding company or a credit institution controlled by an EU parent financial holding company, it shall provide the competent authorities in other Member States who supervise subsidiaries of these parents all relevant information. In determining the extent of relevant information, the importance of those subsidiaries within the financial system in those Member States shall be taken into account.

(5) For the purposes of this Article, information shall be regarded as essential if it could materially influence the assessment of the financial soundness of a particular member of a group of credit institutions in another Member State. It shall include, in particular, the following items:

1) essential information on legal relationships in a group and the management and organisational structure of the group, including all regulated and unregulated entities, unregulated subsidiary undertakings and significant branches belonging to the group and parent undertakings, in accordance with Article 67, paragraph (1), items (2) and (3), Article 97, paragraphs (5) and (6) and Article 101 of this Act, as well as essential information on the competent authorities responsible for the supervision of regulated entities in a group;

2) major procedures for collecting information from the credit institutions in a group, and the checking of that information;

3) adverse developments in credit institutions or in other members of a group, which could seriously affect other credit institutions in the group; and

4) penalties and exceptional measures taken by the competent authority against a credit institution, including the imposition of any specific own funds requirements under Articles 224 and 228 of this Act and the imposition of any limitation on the use of the Advanced Measurement Approach for the calculation of capital requirements under Article 312, paragraph (2) of Regulation (EU) No 575/2013.

(6) Where the Croatian National Bank is the competent authority responsible for the supervision of a credit institution controlled by an EU parent credit institution, it shall whenever possible contact the consolidating supervisor when it needs information regarding the implementation of approaches and methodologies set out in this Act and Regulation (EU) No 575/2013 that may already be available to that competent authority.

Cooperation with the competent authorities of the Member States which are involved in supervision on a consolidated basis

Article 289

(1) The Croatian National Bank shall, before adopting a decision that is of importance for other competent authorities' supervisory tasks, consult these competent authorities with regard to:

1) changes in the shareholder, organisational or management structure of credit institutions in a group, which require the approval or authorisation of the competent authorities; and

2) exceptional measures it intends to take, including the imposition of a specific own funds requirement and the imposition of any limitation on the use of the Advanced Measurement Approach for the calculation of capital requirements under Article 312, paragraph (2) of Regulation (EU) No 575/2013.

(2) In the cases referred to in paragraph (1), item (2) of this Article, the Croatian National Bank shall consult the consolidating supervisor.

(3) By way of derogation from paragraphs (1) and (2) of this Article, the Croatian National Bank may decide not to consult in cases of urgency or where such consultation may jeopardise the effectiveness of the decision. In such cases, the Croatian National Bank shall without delay notify the other competent authorities of the decision adopted.

Regulations regarding supervision on a consolidated basis

Article 290

Regarding supervision on a consolidated basis, the Croatian National Bank may adopt subordinate legislation to further regulate:

1) obligations of an RC parent credit institution or a credit institution which has its head office in the RC and is a subsidiary of an RC parent financial holding company or of an RC parent mixed financial holding company;

2) conditions under which individual members of a group of credit institutions in the RC may be included in or excluded from supervision on a consolidated basis;

3) provisions on the method of consolidation for the purposes of supervision on a consolidated basis;

4) the form and content of consolidated financial statements and supervisory reports, and the method of and time limits for reporting to the Croatian National Bank;

5) the method of identifying a parent credit institution; and

6) the method of and conditions for reporting on intra-group transactions for mixed-activity holding companies and their subsidiary undertakings.

Obligations of mixed-activity holding companies and their subsidiaries regarding supervision on a consolidated basis

Article 291

- (1) Where the parent undertaking of one or more credit institutions is a mixed-activity holding company, this holding company and its subsidiaries shall, on request of the Croatian National Bank, deliver to it all information which would be relevant for the purpose of supervising the credit institution subsidiaries either directly or via the credit institution subsidiaries.
- (2) The Croatian National Bank or a person authorised by the Governor of the Croatian National Bank may carry out on-site examinations to verify information received from mixed-activity holding companies and their subsidiaries.
- (3) If the mixed-activity holding company or one of its subsidiaries is an insurance undertaking, the procedure prescribed in Article 294 of this Act may be used.
- (4) If a mixed-activity holding company or one of its subsidiaries has its head office in a Member State other than that in which the credit institution subsidiary has its head office, on-site examinations to verify information shall be carried out in accordance with the procedures referred to in Article 295 of this Act.

Supervision of intra-group transactions

Article 292

- (1) Without prejudice to the requirements of Part Four of Regulation (EU) No 575/2013, where the parent undertaking of one or more credit institutions is a mixed-activity holding company, the Croatian National Bank shall, as the competent authority responsible for the supervision of these credit institutions, exercise general supervision over transactions between the credit institution and the mixed-activity holding company and its subsidiaries.
- (2) The credit institutions referred to in paragraph (1) of this Article shall:
 - 1) have in place adequate risk management procedures and internal control systems, including sound reporting systems and accounting procedures, in order to identify, measure, monitor and control intra-group transactions with their parent mixed-activity holding company and its subsidiaries appropriately; and
 - 2) notify the Croatian National Bank of any significant intra-group transaction with their parent mixed-activity holding company and its subsidiaries other than those referred to in Article 394 of Regulation (EU) No 575/2013.
- (3) The procedures and significant intra-group transactions referred to in paragraph (2) of this Article shall be subject to overview by the Croatian National Bank.

Exchange of information for the purposes of supervision on a consolidated basis

Article 293

(1) Where a parent undertaking and any of its subsidiaries that are credit institutions have their head office in different Member States and where any of these undertakings has a head office in the Republic of Croatia, the Croatian National Bank shall exchange all relevant information with the competent authorities of other Member States which may allow or aid the exercise of supervision on a consolidated basis.

(2) Where the Croatian National Bank does not itself exercise supervision on a consolidated basis, it may be invited by the competent authorities of the other Member States responsible for exercising such supervision to ask the parent undertaking for any information which would be relevant for the purposes of supervision on a consolidated basis and to transmit it to the competent authorities of the other Member States.

(3) The Croatian National Bank shall not be the competent authority responsible for the supervision on an individual basis of financial holding companies, mixed financial holding companies, other financial institutions, ancillary services undertakings, mixed-activity holding companies and their subsidiaries other than credit institutions, as well as undertakings not included in supervision on a consolidated basis, in respect of which the information referred to in paragraph (2) of this Article is collected or possessed.

Cooperation between supervisory authorities where one of the subsidiaries is an insurance undertaking or an undertaking authorised to provide investment services

Article 294

(1) Where a credit institution, financial holding company, mixed financial holding company or a mixed-activity holding company controls one or more subsidiaries which are insurance undertakings or other undertakings providing investment services which are subject to authorisation, the Croatian National Bank shall cooperate with the supervisory authorities responsible for the supervision of those undertakings.

(2) In the case referred to in paragraph (1) of this Article, the Croatian National Bank shall exchange with the supervisory authorities any information likely to simplify their tasks and to allow supervision of the activity and overall financial position of the undertakings they supervise.

(3) Information received within the framework of supervision on a consolidated basis, and in particular any exchange of information between supervisory authorities, shall be subject to the duty to protect the confidentiality of information.

Powers to carry out on-site examinations

Article 295

(1) The competent authorities of another Member State shall request the Croatian National Bank to have an on-site examination carried out if they wish in specific cases to carry out an on-site examination to verify the information concerning the following undertakings with head offices in the Republic of Croatia:

- a credit institution;
- a mixed financial holding company;
- a financial holding company;
- another financial institution;
- an ancillary services undertaking;
- a mixed-activity holding company;
- a subsidiary referred to in Article 294, paragraph (1) of this Act; or
- a subsidiary of a credit institution, a mixed financial holding company or a financial holding company, which is not included in supervision on a consolidated basis.

(2) The Croatian National Bank may, where this is within its competence under this Act, act on the request of the competent authorities of the other Member State in one of the following ways:

- 1) carry out the examination itself;
- 2) allow the competent authorities of the other Member State who made the request to carry out an on-site examination; or
- 3) appoint a certified auditor or another professionally qualified person authorised by the Governor of the Croatian National Bank to carry out an on-site examination.

(3) Where the competent authorities of the other Member State do not carry out the on-site examination referred to in paragraph (1) of this Article, they may participate in the examination carried out by the Croatian National Bank, a certified auditor or another professionally qualified person authorised by the Governor of the Croatian National Bank.

(4) The Croatian National Bank shall request the competent authorities of the other Member State to have an on-site examination carried out if it wishes in specific cases to carry out an on-site examination to verify the information concerning the following undertakings with head offices in the other Member State:

- a credit institution;
- a mixed financial holding company;

- a financial holding company;
- another financial institution;
- an ancillary services undertaking;
- a mixed-activity holding company;
- a subsidiary referred to in Article 294, paragraph (1) of this Act; or
- a subsidiary of a credit institution, a mixed financial holding company or a financial holding company, which is not included in supervision on a consolidated basis.

Imposition of supervisory measures on financial holding companies, mixed financial holding companies and mixed-activity holding companies

Article 296

Where financial holding companies, mixed financial holding companies, mixed-activity holding companies or responsible persons of these undertakings violate regulations or legal acts adopted for the purposes of supervision on a consolidated basis, the Croatian National Bank shall impose supervisory measures.

Application of regulations to mixed financial holding companies

Article 297

(1) Where the provisions of this Act equivalent to the provisions of the law governing supplementary supervision of financial conglomerates, especially in the part relating to the supervision of operations, apply to mixed financial holding companies, the Croatian National Bank, where it is the consolidating supervisor, may, after consulting the other authorities competent for the supervision of subsidiary undertakings, adopt a decision that only the relevant provisions of the law governing supplementary supervision of financial conglomerates shall apply to mixed financial holding companies.

(2) Where the provisions of this Act equivalent to the provisions of the law governing insurance, especially in the part relating to the supervision of operations, apply to mixed financial holding companies, the Croatian National Bank, where it is the consolidating supervisor, may, with the consent of the authority competent for the supervision of insurance undertakings, adopt a decision that only the relevant provisions of the law governing the most important financial sector determined under the law governing supplementary supervision of financial conglomerates shall apply to mixed financial holding companies.

(3) The Croatian National Bank shall notify the European Banking Authority and the European Insurance and Occupational Pensions Authority of the decisions it adopted in accordance with paragraphs (1) and (2) of this Article.

Cooperation with the competent authorities of third countries for the purposes of exercising supervision

Article 298

(1) The Croatian National Bank may conclude an agreement with one or more competent authorities of third countries for the purposes of exercising supervision on a consolidated basis over the following:

- 1) credit institutions the parent undertakings of which have their head office in a third country; or
- 2) credit institutions situated in third countries the parent undertakings of which, whether credit institutions, mixed financial holding companies or financial holding companies, have their head office in the Republic of Croatia.

(2) The agreement referred to in paragraph (1) of this Article shall seek to ensure the basis for the exchange of information which would be relevant for the purposes of consolidated supervision of credit institutions.

(3) The Croatian National Bank may propose to the European Commission the negotiation of agreements with one or more third countries for the purposes of exercising supervision over credit institutions.

Cooperation arrangements with third countries

Article 299

(1) Where a credit institution which has its head office in the Republic of Croatia and the parent undertaking of which is a credit institution or a mixed financial holding company or a financial holding company, the head office of which is in a third country, is not subject to supervision on a consolidated basis by the Croatian National Bank or the competent authority of another Member State, the Croatian National Bank shall, if responsible for supervision on a consolidated basis, verify whether the subsidiary credit institution which has its head office in the Republic of Croatia is subject to consolidated supervision by a third-country competent authority which is equivalent to that governed by the principles set out in this Act and the requirements of Part One, Title II, Chapter 2 of Regulation (EU) No 575/2013. The Croatian National Bank shall carry out the verification at the request of the parent undertaking or of any of the regulated entities authorised in a Member State, or on its own initiative, and it shall consult the other competent authorities involved in supervision.

(2) While carrying out the verification referred to in paragraph (1) of this Article, the Croatian National Bank shall take into account general guidance of the European Banking Committee as to whether the consolidated supervision arrangements of competent authorities in the third countries in which the head office of the parent undertaking is situated comply with the principles set out in this Act and Regulation (EU) No 575/2013. For this purpose, the Croatian National Bank shall consult the European Banking Authority before adopting a decision.

(3) Where it is established that in a third country there are no consolidated supervision arrangements equivalent to the principles set out in this Act and Regulation (EU) No 575/2013, the Croatian National Bank shall, if responsible for supervision on a consolidated basis, apply the provisions of this Act and Regulation (EU) No 575/2013 as appropriate, or other appropriate supervisory procedures which achieve the objectives of supervision on a consolidated basis of credit institutions, to the credit institution subsidiary which has its head office in the Republic of Croatia. Those supervisory procedures shall, after consulting the other competent authorities involved in supervision, be agreed upon by the competent authority which would be responsible for the supervision on a consolidated basis of credit institutions.

(4) The Croatian National Bank may in particular cases require the establishment of a financial holding company or a mixed financial holding company which has its head office in one of the Member States and the carrying out of consolidation in accordance with this Act.

XXIII CONSUMER PROTECTION

Consumer

Article 300

For the purposes of the provisions of this Act, 'consumer' means any natural person who is a client of a credit institution, and who is acting for purposes outside his/her trade or profession.

Key service information

Article 301

(1) A credit institution shall for each service offered to consumers create a form containing key service information and make it available in the Croatian language and in an appropriate place in its business premises where it provides services to consumers.

(2) The Croatian National Bank may adopt subordinate regulation to further regulate the minimum contents of the form referred to in paragraph (1) of this Article.

Service contracts

Article 302

(1) A credit institution shall conclude a contract with a consumer on the provision of a particular banking service referred to in Article 7 of this Act, in writing and in the Croatian language, and shall deliver at least one copy to the consumer. Where a credit contract is concluded, the credit institution shall, in addition to the consumer, provide a copy of the contract to all other participants in the credit relationship (co-debtors, pledgors and guarantors).

(2) Before concluding a contract on the provision of banking or financial services, the credit institution shall provide the consumer with all the information needed to compare different offers

in order to take a decision on whether to conclude a contract. The information to be provided to the consumer by the credit institution shall include at least the information prescribed by the law governing consumer lending and other regulations governing particular banking and financial services.

(3) Before concluding the contract referred to in paragraph (2) of this Article, the credit institution shall present or disclose to the consumer all the relevant terms and conditions of the contract which clearly indicate the rights and obligations of the contracting parties. On request and free of charge, the credit institution shall provide the consumer with a draft of the contract referred to in paragraph (2) of this Article. This provision shall not apply if the credit institution is at the time of the request unwilling to proceed to the conclusion of the legal arrangement, of which it shall notify the consumer without delay and in writing.

(4) In addition to a draft of the contract the credit institution shall provide the consumer free of charge with a copy or electronic version of articles from the relevant General operating conditions, Interest rate policy, Tariff of service fees and charges, as well as all other bylaws of the credit institution that may directly or indirectly affect the financial position of the consumer. The credit institution shall provide with each article a short explanation of the manner in which they may affect the financial position of the consumer.

(5) Before concluding a credit contract the credit institution shall present or disclose to other participants in the credit relationship all the relevant information on the terms and conditions of the contract which clearly indicate all rights and obligations of the contracting parties and shall warn them of the legal implications of being a co-debtor or guarantor, as well as of the right of the credit institution to undertake collection of its claims from co-debtors or guarantors.

(6) In deposit and lending services to consumers as regards services indexed to foreign currency the credit institution shall apply the midpoint exchange rate of the Croatian National Bank for the respective currency against the kuna applicable on the day of the transaction.

Disclosure of general operating conditions

Article 303

(1) A credit institution shall disclose to consumers its general operating conditions, including information on the conditions for providing services, in the Croatian language and in an appropriate place in its business premises where it provides services to consumers.

(2) In addition to the mandatory method of providing information to consumers referred to in paragraph (1) of this Article, a credit institution may provide the same information in other appropriate manners.

(3) A credit institution shall disclose amendments to its general operating conditions in the manner referred to in paragraphs (1) and (2) of this Article at least 15 days before their entry into force.

(4) The information referred to in paragraph (1) of this Article related to the granting of credits shall include the data on:

- 1) applicable annual nominal rates of regular and default interest;
- 2) the method of calculating interest (proportional or equivalent interest rate);
- 3) the terms and conditions under which regular and default interest may be changed during the period of credit utilisation, i.e. repayment;
- 4) the currencies in which the principal amount may be denominated or to which the principal amount may be linked and the explanations relating to the risk of change in the exchange rate of these currencies;
- 5) fees and commissions (other than the declared nominal interest) charged by the credit institution to borrowers, including the explanation relating to the possible changes to these fees and commissions during the life of the credit contract with the consumer;
- 6) effective interest rates reflecting the total price of particular types of credit, calculated in accordance with the regulations of the Croatian National Bank;
- 7) the amount of principal and interest payments (including other costs) for the respective credit amount, repayment periods, the number and amount of instalments (loan amortisation schedule);
- 8) the terms and conditions for making a deposit with the credit institution, if this is a prerequisite for the granting of a credit;
- 9) the possibilities and terms and conditions for offsetting credits against the deposits referred to in the preceding item;
- 10) collateral instruments and other terms and conditions imposed by the credit institution laying special stress on the consequences of defaulting on contractual commitments, cancellation or termination of the contract and the order in which collateral is activated;
- 11) the right of the consumer to withdraw from the contract and the connected time limits provided; and
- 12) the possibilities and the terms and conditions for early repayment of the credit.

(5) The information referred to in paragraph (1) of this Article related to the acceptance of deposits shall include the data on:

- 1) applicable annual nominal interest rates;
- 2) the method of calculating interest (proportional or equivalent interest rate);

- 3) the currencies in which the deposit may be denominated or to which the deposit may be linked and the explanations relating to the risk of change in the exchange rate of these currencies;
- 4) the terms and conditions under which interest rates may be changed;
- 5) the lowest amount accepted in deposit;
- 6) fees for maintaining the accounts and other similar fees and commissions if they are charged by the credit institution to depositors, including the explanation relating to the possible changes to these fees during the life of the deposit contract;
- 7) effective interest rates reflecting the total return on deposit, calculated in accordance with the regulations of the Croatian National Bank;
- 8) basic information on deposit insurance;
- 9) the possibilities as regards the repayment of a time deposit before its maturity date and the consequences thereof;
- 10) the treatment of deposits after the maturity date of the time deposit; and
- 11) the conditions for the management of the assets of minors.

(6) The Croatian National Bank may adopt subordinate regulation to further regulate additional obligations for credit institutions regarding the general operating conditions.

Regulation on the content of contracts

Article 304

The Croatian National Bank may adopt subordinate regulation to further regulate:

- 1) a uniform method of calculating and disclosing credit and deposit prices (effective interest rates referred to in Article 303, paragraph (4), item (6) and paragraph (5), item (7) of this Act);
- 2) other mandatory elements of credit and deposit contracts as well as of attachments to these contracts;
- 3) the content and form of providing the information referred to in Article 302, paragraph (2) of this Act;
- 4) the standardised contract forms for particular deposit and lending services; and
- 5) the provisions that deposit and credit contracts may not include.

Consumer notification

Article 305

(1) A credit institution shall notify consumers in an agreed upon manner, free of charge, and on an annual basis at a minimum, of the amount of their credits or deposits. In case of credits, such notifications shall include amounts due and payable by the debtor to the credit institution, information as regards the time limit in which the credit institution will send the first and the second collection letter and the warning of a pending cancellation of the credit. Such notifications shall be sent once a year free of charge to the address of the co-debtor and guarantor. The credit institution shall deliver the notification on the amount of credit in the manner referred to in this paragraph up until the moment of the initiation of the judicial debt recovery proceedings.

(2) Where the consumer – a debtor under a credit contract and the credit institution fail to agree on the repayment scheme within the maximum of two months following the default on repayment, the credit institution shall notify the co-debtor, pledgor and guarantor on the debt balance outstanding and provide them with a period of 15 days of the date of the notification sent via registered mail to settle the obligation in cash. This provision shall not preclude the credit institution from initiating forced collection proceedings at the moment of recording due but unpaid receivables.

(3) Where variable interest rates have been contracted, a credit institution shall notify consumers of interest rate changes in an agreed upon manner at least 15 days before their application, and in case of credit contracts, the credit institution shall also provide the consumer with the amended loan amortisation schedule. Where interest rates have changed, the credit institution shall in the same notification present and explain to the consumer the changes of parameters that caused the change in interest rates.

(4) Where the credit institution fails to notify the consumer on the change in interest rates in an agreed upon manner at least 15 days prior to the change, it shall postpone the application of the new interest rate until the following calculation period.

(5) Where the consumer – a credit user, upon receipt of the notification on the change in interest rates does not agree with the change, he/she has the right within three months of the receipt of the notification to early repayment of the credit without paying any charges or fees to the credit institution, including the charge or fee for early credit repayment. In such a case the credit institution has no right to damages due to early repayment.

Variable interest rate

Article 306

The provisions of the Consumer Credit Act governing variable interest rates shall apply to credit contracts regardless of the total amount and the type of credit granted by a credit institution to a consumer.

Contracting interest rates

Article 307

(1) Where a credit institution offers to contract a variable interest rate, it shall warn the consumer of all risks associated with the variability of the interest rate and contract the parameters affecting the change in the contracted interest rate in the credit and/or deposit contract in a clear and unambiguous manner.

(2) Short-term deposits and short-term credits shall not be contracted with a variable interest rate. For the purposes of this Act, short-term services shall be those contracted for a period of up to 12 months.

(3) Promotional interest rates may be contracted only for short-term services. Promotional interest rates are those offered upon the moment of sale for a specified time period upon the expiry of which the interest rate is adjusted to the market (currently applicable) interest rate level.

Charges and fees

Article 308

(1) For the duration of the contract, a credit institution shall not charge the consumer any charges or fees that were not specified in the Tariff of service fees and charges at the time when the contract was concluded.

(2) The Croatian National Bank may adopt subordinate regulation to further regulate a list of activities to be carried out by credit institutions as part of deposit and lending services to consumers free of charge.

Consumer complaints

Article 309

(1) The Croatian National Bank shall, within its competence for credit institutions, monitor whether credit institutions comply with their disclosed internal bylaws governing the business relationship between credit institutions and clients, the contracts concluded with their clients, as well as the consumer protection provisions of this Act, regulations adopted under this Act and the provisions of the special laws governing consumer protection.

(2) The Croatian National Bank may require from credit institutions the submission of additional data, reports and other bylaws it deems necessary for the purpose of consumer protection.

(3) Where a consumer deems that a credit institution has not complied with the terms and conditions of a contract on the provision of banking or financial services, he/she may file a complaint against the credit institution with the following:

1) the relevant organisational unit of the credit institution;

2) the organisational unit of the credit institution responsible for addressing consumer complaints;

3) the internal audit function of the credit institution;

4) a consumer protection association; or

5) other competent authorities.

(4) A credit institution shall entrust at least one of its employees with the task of addressing consumer complaints. A credit institution which has its head office outside the Republic of Croatia and provides services within the territory of the Republic of Croatia through a branch shall entrust at least one employee of its branch in the Republic of Croatia with the task of addressing complaints from consumers in the Republic of Croatia. A credit institution shall appoint a person responsible for addressing consumer complaints.

(5) Where a consumer is dissatisfied with the response or decision of a credit institution as regards his/her filed complaint, he/she may notify the Croatian National Bank thereof.

(6) The Croatian National Bank shall not address individual consumer complaints, i.e. complaints from a credit institution's clients.

(7) The Croatian National Bank shall periodically monitor the developments in the number of consumer complaints per individual credit institution. Credit institutions shall deliver to the Croatian National Bank data on consumer complaints in the manner and within the time limits laid down by it.

Out-of-court settlements of disputes

Article 310

(1) In all disputes which may arise in the implementation of the provisions of this Act between a consumer as a user of banking and/or financial services and a credit institution as a provider of banking and/or financial services, a proposal for conciliation may be submitted to the Conciliation Centre of the Croatian Chamber of Economy.

(2) Conciliation before the conciliation centre referred to in paragraph (1) of this Article shall be carried out in accordance with the Rules of Conciliation of the Croatian Chamber of Economy.

(3) Subject to the agreement of the Minister of Finance, the Croatian Chamber of Economy shall adopt a decision on the costs of conciliation in consumer disputes which shall specify the amount of fees and remuneration as well as other costs of the conciliation proceedings referred to in paragraph (1) of this Article.

(4) Settlements made in conciliation proceedings before the conciliation centre referred to in paragraph (1) of this Article shall be regarded as enforceable documents.

(5) Funds for the costs of conciliation proceedings before the conciliation centre referred to in paragraph (1) of this Article shall be provided in the state budget.

Consumer protection measures

Article 311

For the purpose of ensuring consumer protection in accordance with the provisions of this Act, the Consumer Credit Act and other related regulations, the Croatian National Bank may issue a decision to impose measures on a credit institution and provide time limits to meet them.

Application of a special law

Article 312

(1) In addition to the provisions of Articles 300 to 311 of this Act, the rights of credit institutions' clients shall be protected by special laws governing consumer protection, while observing the provisions of this Act relating to the obligation of banking secrecy.

(2) Unless otherwise prescribed in this Act, the provisions of the Consumer Protection Act relating to consumer credit shall apply *mutatis mutandis* to contracts on credits granted by credit institutions.

XXIV SAVINGS BANKS

Savings bank

Article 313

(1) A savings bank shall be a credit institution authorised by the Croatian National Bank as a savings bank and established as a joint stock company which has its head office in the Republic of Croatia.

(2) The firm name of a savings bank must contain the words 'savings bank'.

(3) The words 'savings bank' or derivatives of these words, if contained in the firm name, may be entered in the register of companies and used in legal transactions only by a legal person authorised by the Croatian National Bank as a savings bank.

(4) By way of derogation from paragraph (3) of this Article, the words 'savings bank' in the firm name may be used in legal transactions by a savings bank that has been authorised as a bank in accordance with Article 317 of this Act.

Application of other regulations

Article 314

With the exception of the provisions of Article 22 and Articles 74 to 82 of this Act, the provisions of this Act, regulations adopted under this Act, and of other regulations governing the operation of credit institutions shall apply *mutatis mutandis* to savings banks.

Savings bank activities

Article 315

(1) Savings banks may provide the banking services referred to in Article 7 of this Act.

(2) In addition to the banking services referred to in paragraph (1) of this Article, savings banks may provide the following financial services subject to authorisation by the Croatian National Bank:

- 1) issuance of guarantees or other commitments;
- 2) lending, including consumer and mortgage credits;
- 3) trading for own account in:
 - money market instruments and other transferable securities,
 - foreign exchange, including currency exchange transactions;
- 4) money transmission services in the country in accordance with special regulations;
- 5) credit reference services, such as collection, analysis and provision of information on the creditworthiness of legal and natural persons that conduct their business independently;
- 6) activities related to the sale of insurance policies in accordance with the regulations governing insurance;
- 7) issuing and administering means of payment;
- 8) safe custody services;
- 9) money broking; and
- 10) other services similar to the services referred to in items (1) to (9) of this paragraph and listed in the savings bank's authorisation.

(3) Savings banks may neither operate nor establish branches and representative offices outside the Republic of Croatia.

Preferential shares of savings banks

Article 316

Savings banks may not issue preferential shares.

Authorisations to savings banks intending to operate as banks

Article 317

(1) A savings bank intending to operate as a bank shall obtain authorisation from the Croatian National Bank to operate as a bank.

(2) The provisions of this Act governing the authorisation procedure shall apply *mutatis mutandis* to the authorisation procedure regarding a savings bank intending to operate as a bank.

(3) When deciding whether to grant the authorisation referred to in paragraph (1) of this Article, the Croatian National Bank may require the chairperson and members of the management board to make a presentation detailing how they propose to direct the business of the bank.

(4) The Croatian National Bank shall decide on the authorisation referred to in paragraph (1) of this Article on the basis of:

- 1) documents delivered together with the application for authorisation;
- 2) the presentation referred to in paragraph (3) of this Article; and
- 3) other data and information available to it.

(5) The authorisation to operate as a savings bank shall expire on the date of issue of the authorisation referred to in paragraph (1) of this Article.

XXV HOUSING SAVINGS BANKS

Housing savings banks

Article 318

The provisions of this Act shall apply to housing savings banks established under the provisions of the Act on Housing Savings and State Incentive to Housing Savings, unless otherwise prescribed in other laws.

Protection of the name

Article 319

The words 'housing savings bank' or derivatives of these words, if contained in the firm name, may be entered in the register of companies or used in legal transactions only by the housing savings banks referred to in Article 318 of this Act, unless otherwise provided for in another law.

XXVI ASSOCIATION OF CREDIT INSTITUTIONS

Association of credit institutions

Article 320

(1) Credit institutions may join an association of credit institutions established as an economic interest group or other form of association of economic entities in accordance with a special law.

(2) In addition to the tasks laid down in its Articles of Association, an association of credit institutions may:

1) organise the exchange of information on creditworthiness for the purpose of protection against credit risk; and

2) provide professional training for employees of credit institutions and issue certificates of completion of the professional training.

(3) Credit institutions may not conclude any written or oral agreement with other credit institutions or their associations that would restrict free market competition.

(4) At the request of the Croatian National Bank, an association of credit institutions shall deliver to the Croatian National Bank its Articles of Association as well as all agreements, contracts and other general bylaws.

Credit register

Article 321

(1) The Croatian National Bank may collect information from persons who are authorised under this Act to provide banking services within the territory of the Republic of Croatia and organise the exchange of information for the purpose of protection against credit risk.

(2) The Croatian National Bank may adopt subordinate regulation to further regulate the methods of and the conditions for collecting information for the purpose of protection against credit risk.

XXVII DECISION-MAKING METHODS AND PROCEDURES OF THE CROATIAN NATIONAL BANK

XXVII.1 GENERAL PROVISIONS

Restitution

Article 322

It shall not be possible to require restitution in an administrative procedure carried out by the Croatian National Bank.

Decision

Article 323

Decisions issued by the Croatian National Bank in an administrative procedure must be written and fully reasoned. No complaint against such decisions shall be allowed, but administrative dispute may be initiated against them.

Amendments to decisions

Article 324

(1) In the course of supervision of a credit institution, the Croatian National Bank may amend its decision at the request of the party concerned or *ex officio*.

(2) The Croatian National Bank may amend its decision in cases where, after the issue of the authorisation, new circumstances have arisen which would or could influence the operation of the credit institution in question.

(3) In the cases referred to in paragraphs (1) and (2) of this Article, the Croatian National Bank shall also take into account all facts and circumstances arising after the adoption of the decision referred to in paragraph (1) of this Article or after the issue of the authorisation.

Liability for damage

Article 325

The Croatian National Bank, employees of the Croatian National Bank, members of the Council of the Croatian National Bank and persons authorised by the Croatian National Bank shall not be liable for damage that may arise in the course of the performance of their duties under this Act, the Act on the Croatian National Bank or regulations adopted under these acts, unless it is proven that they acted or failed to act intentionally or as a result of gross negligence.

XXVII.2 AUTHORISATION PROCEDURE

Initiation of authorisation procedures

Article 326

The Croatian National Bank may initiate an authorisation procedure at the request of the party concerned, *ex officio* or at the request of another competent authority where so provided for in this Act or Regulation (EU) No 575/2013.

Time limits

Article 327

(1) Within six months of receipt of a valid application, the Croatian National Bank must decide on:

1) an application for authorisation and all other applications referred to in Article 66 of this Act; and

2) an application for authorisation for merger by acquisition, authorisation for merger by formation of a new credit institution, or authorisation for division of credit institutions.

(2) The time limit for the adoption of the decisions and notifications on the decisions referred to in paragraph (1) of this Article may not be longer than 12 months from the date of receipt of the application.

Enforcement of decisions

Article 328

Decisions of the Croatian National Bank shall be enforceable at the moment of their delivery to the parties to the proceedings, unless otherwise prescribed in this Act.

XXVIII REORGANISATION MEASURES, WINDING-UP AND BANKRUPTCY PROCEEDINGS WITH INTERNATIONAL IMPLICATIONS

XXVIII.1 GENERAL PROVISIONS

General provision

Article 329

The provisions of the Bankruptcy Act governing international bankruptcy proceedings shall apply *mutatis mutandis* to bankruptcy proceedings against a credit institution or its branch, unless otherwise provided for in this Act.

Scope of application

Article 330

The provisions of this Title shall apply to credit institutions with head offices in the Republic of Croatia that have branches in another Member State, credit institutions of other Member States,

and branches of a third-country credit institution only where that institution has branches in at least two Member States.

Definitions

Article 331

The terms used shall mean the following for the purposes of this Title and in accordance with the law applicable in each Member State:

- 'administrator' means any person or body appointed by the administrative, public or judicial authorities whose task is to administer reorganisation measures;
- 'administrative authorities, agencies and other public or judicial authorities' means the administrative authorities, agencies and other public or judicial authorities of the Member States as are competent for the purposes of reorganisation measures, winding-up or bankruptcy proceedings;
- 'liquidator' means any person or body appointed by the administrative, public or judicial authorities whose task is to administer winding-up proceedings;
- 'winding-up proceedings' means collective proceedings opened and monitored by the administrative, public or judicial authorities of a Member State with the aim of realising assets under the supervision of those authorities, including where the proceedings are terminated by a composition or other, similar measure;
- 'trustee in bankruptcy' means any person or body appointed by the administrative, public or judicial authorities or creditors whose task is to administer and liquidate the bankruptcy estate, and monitor the business activities of a debtor in bankruptcy;
- 'bankruptcy proceedings' means collective proceedings opened and monitored by the judicial or other authorities of a Member State, after establishing the existence of the grounds for bankruptcy, which result in seizure of all or a part of the debtor's property and the appointment of a trustee in bankruptcy with the aim of collective settlement of claims of the debtor's creditors under the supervision of those authorities, and regulating the legal relationship between the debtor and its creditors, and in particular to restore its viability;
- 'reorganisation measures' means measures which are intended to preserve or restore the financial soundness of a credit institution and which could affect third parties' pre-existing rights, including measures involving the possibility of a suspension of payments, suspension of enforcement measures or reduction of claims.

XXVIII.2 REORGANISATION MEASURES

Legal effects of a decision on reorganisation measures

Article 332

Reorganisation measures imposed by the administrative authorities, agencies and other public or judicial authorities on a credit institution which has its head office in another Member State and has branches within the territory of the Republic of Croatia shall be governed by the law of the home Member State and shall have full legal effects within the territory of the Republic of Croatia on third parties once they become effective in the home Member State.

XXVIII.3 WINDING-UP AND BANKRUPTCY PROCEEDINGS

XXVIII.3.1 Winding-up and bankruptcy proceedings against credit institutions with head offices in the Republic of Croatia and credit institutions of other Member States

International jurisdiction to open winding-up or bankruptcy proceedings

Article 333

When the Croatian National Bank adopts a decision to initiate compulsory winding-up proceedings or when the competent commercial court in the Republic of Croatia adopts a decision to open bankruptcy proceedings against a credit institution which has a branch in another Member State, these proceedings shall also be carried out for branches of the credit institution operating within the territory of the other Member State and shall have legal effects on third parties.

Special bankruptcy proceedings

Article 334

The special bankruptcy proceedings referred to in Article 302 of the Bankruptcy Act shall not be permitted for branches of credit institutions of other Member States operating in the Republic of Croatia.

Recognition of a decision to open winding-up or bankruptcy proceedings

Article 335

A decision to open winding-up or bankruptcy proceedings against a credit institution of another Member State, which has been adopted by the administrative, public or judicial authority of the home Member State, shall be recognised in the Republic of Croatia without any further formalities and shall have legal effects in the Republic of Croatia once it becomes effective in the home Member State.

Notification to other competent authorities

Article 336

(1) Where the Republic of Croatia is the home Member State in which a decision to open compulsory winding-up proceedings against a credit institution which has branches in another Member State is adopted, the Croatian National Bank shall without delay notify the competent supervisory authority of the host Member State accordingly, including the practical legal effects which such proceedings may have, if possible before the proceedings open or otherwise immediately thereafter.

(2) Where the competent commercial court in the Republic of Croatia as the home Member State adopts a decision to open bankruptcy proceedings against a credit institution which has branches in another Member State, the competent commercial court shall without delay notify the Croatian National Bank accordingly, including the practical legal effects which such proceedings may have. The Croatian National Bank shall deliver that notification to the competent supervisory authority of the host Member State without delay, if possible before the proceedings open or otherwise immediately thereafter.

Publication

Article 337

Where the Republic of Croatia is the home Member State in which a decision to open winding-up or bankruptcy proceedings against a credit institution which has branches in another Member State is adopted, the liquidator or trustee in bankruptcy shall publish a dispositive part of the decision to open winding-up or bankruptcy proceedings in the Official Journal of the European Union and at least two national newspapers in each of the host Member States, and in the official language or languages of the host Member States concerned.

Notification to known creditors

Article 338

(1) Where the Republic of Croatia is the home Member State in which a decision to open winding-up or bankruptcy proceedings against a credit institution which has branches in another Member State is adopted, the liquidator or the competent commercial court shall without delay individually notify known creditors who have their domiciles, normal places of residence or head office in other Member States.

(2) The notification referred to in paragraph (1) of this Article shall in particular deal with time limits, the penalties laid down in regard to those time limits, the body or authority empowered to accept the lodgement of claims, the content of the lodgement of claims, documents to be enclosed and the other measures laid down. Such a notification shall also clearly indicate whether creditors whose claims are preferential or secured in rem (creditors with rights based on reservation of title and creditors entitled to separate satisfaction) need lodge their claims.

(3) The notification referred to in paragraph (2) of this Article shall be provided in the official language or languages of a Member State in which a creditor has his domicile, normal place of residence or head office. For that purpose a form shall be used bearing, in addition to the

information referred to in paragraph (2) of this Article, in all the official languages of the European Economic Area, the heading 'Invitation to lodge a claim. Time limits to be observed'.

(4) The central government administration body responsible for judicial matters shall prescribe the form of the notification referred to in paragraph (3) of this Article within 60 days of the entry into force of this Act.

Foreign creditors' right to lodge claims

Article 339

(1) Where the Republic of Croatia is the home Member State in which winding-up or bankruptcy proceedings have been opened against a credit institution, any creditor who has his domicile, normal place of residence or head office in another Member State, including Member States' public authorities, shall have the right to lodge claims in the said winding-up or bankruptcy proceedings carried out in the Republic of Croatia.

(2) The claims of the creditors referred to in paragraph (1) of this Article shall be treated in the same way and accorded the same ranking as claims of an equivalent nature which may be lodged by creditors having their domiciles, normal places of residence or head office in the Republic of Croatia.

(3) The creditors referred to in paragraph (1) of this Article shall lodge their claims in accordance with the instructions provided in the notification referred to in Article 338, paragraph (2) of this Act.

(4) A creditor may lodge his claim in the official language or one of the official languages of a Member State in which he has his domicile, normal place of residence or head office provided that the lodgement of his claim or the submission of observations on his claim shall bear the heading 'Lodgement of claim and submission of observations relating to claims' in the Croatian language. The liquidator or trustee in bankruptcy may require creditors to submit a certified translation in the Croatian language of the lodgement of their claims and of observations relating to claims.

Regular notification to creditors

Article 340

Liquidators in winding-up proceedings or creditors' committees in bankruptcy proceedings against credit institutions shall notify creditors regularly and in writing, particularly with regard to progress in the winding-up or bankruptcy proceedings.

Law applicable

Article 341

(1) Winding-up or bankruptcy proceedings against a credit institution of another Member State shall be carried out in accordance with the regulations applicable in its home Member State, unless otherwise provided for in this Act.

(2) The law of the home Member State shall determine in particular:

1) the goods included in the estate and the treatment of goods acquired by the credit institution after the opening of winding-up or bankruptcy proceedings;

2) the respective powers of the credit institution, the liquidator or trustee in bankruptcy;

3) the conditions under which set-offs may be invoked;

4) the effects of the opening of winding-up or bankruptcy proceedings on current contracts to which the credit institution is party;

5) the legal effects of the opening of winding-up or bankruptcy proceedings on proceedings brought by individual creditors, with the exception of lawsuits pending, as provided for in Article 356 of this Act;

6) the claims which are to be lodged against the credit institution undergoing winding-up or bankruptcy proceedings and the treatment of claims arising after the opening of such proceedings;

7) the rules governing the lodging, verification and admission of claims;

8) the rules governing the distribution of the proceeds of the realisation of assets, the ranking of claims and the rights of creditors who have obtained partial satisfaction after the opening of winding-up or bankruptcy proceedings by virtue of a right in rem or through a set-off;

9) the conditions for, and the legal effects of, the closure of winding-up or bankruptcy proceedings, in particular by composition;

10) creditors' rights after the closure of winding-up or bankruptcy proceedings;

11) who is to bear the costs and expenses incurred in the winding-up or bankruptcy proceedings; and

12) the rules relating to legal acts which are null and void, voidable or relatively void because they are detrimental to the creditors as a whole.

Honouring of obligations for the benefit of a credit institution

Article 342

(1) Where an obligation has been honoured for the benefit of a credit institution which has a branch in another Member State and which is the subject of winding-up or bankruptcy proceedings opened

in another Member State, the person honouring the obligation shall be deemed to have discharged it if he was unaware of the opening of proceedings.

(2) Where such an obligation is honoured before the publication provided for in Article 337 of this Act has been effected, the person referred to in paragraph (1) of this Article shall be presumed, in the absence of proof to the contrary, to have been unaware of the opening of winding-up or bankruptcy proceedings.

(3) Where the obligation is honoured after the publication provided for in Article 337 of this Act has been effected, the person referred to in paragraph (1) of this Article shall be presumed, in the absence of proof to the contrary, to have been aware of the opening of winding-up or bankruptcy proceedings.

Activities in winding-up or bankruptcy proceedings

Article 343

Where winding-up proceedings have been initiated or bankruptcy proceedings have been opened against a credit institution of a Member State which has a branch in the Republic of Croatia and where its authorisation has been revoked, such a decision shall not prevent certain activities of the branch of that institution from continuing insofar as is necessary or appropriate for the purposes of winding-up or bankruptcy proceedings.

Effects of activities in the course of the voluntary winding-up

Article 344

Where the regulations applicable in the home Member State provide that the voluntary winding-up of a credit institution of that Member State shall not preclude the adoption of a reorganisation measure or the opening of bankruptcy proceedings concerning that credit institution, the adoption of reorganisation measures or the opening of bankruptcy proceedings shall have the same legal effect on a branch of that credit institution within the territory of the Republic of Croatia.

XXVIII.3.2 Winding-up and bankruptcy proceedings against branches of third-country credit institutions

Branches of third-country credit institutions

Article 345

(1) Where the Croatian National Bank intends to adopt a decision to initiate compulsory winding-up proceedings or where a commercial court in the Republic of Croatia intends to adopt a decision to open bankruptcy proceedings against a branch of a third-country credit institution operating in the Republic of Croatia, it shall without delay notify accordingly the competent supervisory authority of the home country in question, including the practical legal effects which such decision may have.

(2) Where a decision to open bankruptcy proceedings against a branch of a third-country credit institution which has branches in another Member State is adopted in the Republic of Croatia, the competent commercial court in the Republic of Croatia shall without delay notify the Croatian National Bank accordingly, including the practical legal effects which such decision may have. The Croatian National Bank shall without delay deliver that notification to the competent supervisory authority of the home country in question and the competent supervisory authority of the other host Member State, if possible before the proceedings open or otherwise immediately thereafter.

(3) In the case referred to in paragraph (1) of this Article, the Croatian National Bank, the competent commercial court, liquidators or trustees in bankruptcy shall endeavour to cooperate and coordinate their actions with the other competent supervisory authorities.

XXVIII.4 PROVISIONS COMMON TO REORGANISATION MEASURES AND WINDING-UP OR BANKRUPTCY PROCEEDINGS CONCERNING CREDIT INSTITUTIONS OF THE MEMBER STATES

Legal effects on certain contracts and rights

Article 346

The legal effects of a reorganisation measure or the opening of winding-up or bankruptcy proceedings on:

- 1) employment contracts and relationships shall be governed solely by the law of the home Member State applicable to the employment contract;
- 2) a contract conferring the right to make use of or acquire immovable property shall be governed solely by the law of the Member State within the territory of which the immovable property is situated. That law shall determine whether property is movable or immovable; and
- 3) rights in respect of immovable property, a ship or an aircraft subject to registration in a public register shall be governed solely by the law of the Member State under the authority of which the register is kept.

Third parties' rights in rem

Article 347

(1) The adoption of reorganisation measures or the opening of winding-up or bankruptcy proceedings shall not affect the rights in rem of creditors or third parties in respect of tangible or intangible, movable or immovable assets – both specific assets and collections of indefinite assets as a whole which change from time to time – belonging to the credit institution established in the Republic of Croatia or another Member State which are situated within the territory of another Member State at the time of the adoption of such measures or the opening of winding-up or bankruptcy proceedings.

(2) The rights referred to in paragraph (1) of this Article shall in particular mean:

1) the right to dispose of assets or have them disposed of and to obtain satisfaction from the proceeds of or income from those assets, in particular by virtue of a lien or a mortgage;

2) the exclusive right to have a claim met, in particular a right guaranteed by a lien in respect of the claim or by assignment of the claim by way of a guarantee;

3) the right to demand the assets from, and/or to require restitution by, anyone having possession or use of them contrary to the wishes of the party so entitled; and

4) a right in rem to the beneficial use of assets.

(3) The right, recorded in a public register and enforceable against third parties, under which a right in rem within the meaning of paragraph (1) of this Article may be obtained, shall be considered a right in rem.

(4) The provision of paragraph (1) of this Article shall not preclude the actions for voidness, voidability or relative voidness of legal acts, where such actions are permitted by the law of the home Member State.

Reservation of title

Article 348

(1) The adoption of reorganisation measures or the opening of winding-up or bankruptcy proceedings concerning a credit institution established in the Republic of Croatia or another Member State and purchasing an asset shall not affect the seller's rights based on a reservation of title where at the time of the adoption of such measures or opening of winding-up or bankruptcy proceedings the asset is situated within the territory of a Member State other than the State in which the said measures were adopted or the said proceedings were opened.

(2) The adoption of reorganisation measures or the opening of winding-up or bankruptcy proceedings concerning a credit institution established in the Republic of Croatia or another Member State and selling an asset, after delivery of the asset, shall not constitute grounds for rescinding or terminating the sale and shall not prevent the purchaser from acquiring title where at the time of the adoption of such measures or the opening of winding-up or bankruptcy proceedings the asset sold is situated within the territory of a Member State other than the State in which the said measures were adopted or the said proceedings were opened.

(3) The provision of paragraph (1) of this Article shall not preclude the actions for voidness, voidability or relative voidness of legal acts, where such actions are permitted by the law of the home Member State.

Set-off

Article 349

(1) The adoption of reorganisation measures or the opening of winding-up or bankruptcy proceedings shall not affect the right of creditors to demand the set-off of their claims against the claims of the credit institution established in the Republic of Croatia or another Member State, where such a set-off is permitted by the law applicable to the credit institution's claim.

(2) The provision of paragraph (1) of this Article shall not preclude the actions for voidness, voidability or relative voidness of legal acts, where such actions are permitted by the law of the home Member State.

Law applicable to proprietary rights and other rights in instruments

Article 350

(1) In the course of the implementation of reorganisation measures or the opening of winding-up or bankruptcy proceedings concerning a credit institution established in the Republic of Croatia or another Member State, the enforcement of proprietary rights in instruments or other rights in such instruments the existence or transfer of which presupposes their recording in a public register, an account or a centralised deposit system held or located in a Member State shall be governed by the law of the Member State where the public register, account, or centralised deposit system in which those rights are recorded is held or located.

(2) By way of derogation from paragraph (1) of this Article, in the course of the implementation of reorganisation measures or the opening of winding-up or bankruptcy proceedings concerning a credit institution established in the Republic of Croatia or another Member State, securities repurchase agreements shall be governed solely by the law of the contract which governs such agreements.

(3) By way of derogation from paragraph (1) of this Article, in the course of the implementation of reorganisation measures or the opening of winding-up or bankruptcy proceedings concerning a credit institution established in the Republic of Croatia or another Member State, transactions carried out in the context of a regulated market shall be governed solely by the law of the contract which governs such transactions.

Set-off and netting agreements

Article 351

In the course of the implementation of reorganisation measures or the opening of winding-up or bankruptcy proceedings concerning a credit institution established in the Republic of Croatia or another Member State, set-off and netting agreements shall be governed solely by the law of the contract which governs such agreements.

Administrators, liquidators and trustees in bankruptcy

Article 352

(1) The appointment of an administrator, liquidator, or trustee in bankruptcy to a credit institution established in another Member State within the territory of another Member State shall be evidenced in the Republic of Croatia by a certified copy of the original decision appointing him or by any other certificate issued by the administrative, public or judicial authority of the home Member State. A translation into the Croatian language of that decision or certificate may be required in the Republic of Croatia. No legalisation or other similar formality shall be required.

(2) Administrators, liquidators, or trustees in bankruptcy appointed within the territory of another Member State shall be entitled to exercise within the territory of the Republic of Croatia all the powers which they are entitled to exercise within the territory of the home Member State. They may also appoint persons to assist or, where appropriate, represent them in the course of the proceedings.

(3) In exercising their powers, the persons referred to in paragraphs (1) and (2) of this Article shall comply with the laws and regulations of the Republic of Croatia, in particular with regard to procedures for the realisation of assets and the provision of information to employees. Those powers may not include the use of force or the right to rule on legal proceedings or disputes.

Registration in a public register

Article 353

(1) The administrator, liquidator or trustee in bankruptcy, or any administrative or judicial authority of the home Member State may request that a reorganisation measure or the decision to open winding-up or bankruptcy proceedings be registered in the Republic of Croatia in the register of companies, the crafts register, the land register, the ship register, the register of ships under construction, the register of aircrafts or the register of intellectual property rights.

(2) Where the Republic of Croatia is the home Member State in which winding-up or bankruptcy proceedings have been opened, the liquidator or trustee in bankruptcy shall request that the decision to open winding-up or bankruptcy proceedings be registered in each of the host Member States.

(3) The costs of registration shall be regarded as costs and expenses incurred in the proceedings.

Acts detrimental to the creditors as a whole

Article 354

Where winding-up or bankruptcy proceedings have been opened against a credit institution which has its head office in the Republic of Croatia, the law of the Republic of Croatia relating to the voidness, voidability or relative voidness of legal acts detrimental to the creditors as a whole shall not apply where the beneficiary of these acts provides proof that:

- 1) the act detrimental to the creditors as a whole is subject to the law of a Member State other than the Republic of Croatia; and
- 2) that law does not allow any means of challenging that act in the case in point.

Protection of third parties

Article 355

(1) Where, by an act concluded after the adoption of a reorganisation measure or the opening of winding-up or bankruptcy proceedings, a credit institution established in the Republic of Croatia or another Member State disposes, for consideration, of an immovable asset, the validity of that legal act shall be governed by the law of the Member State within the territory of which the immovable asset is situated.

(2) Where, by an act concluded after the adoption of a reorganisation measure or the opening of winding-up or bankruptcy proceedings, a credit institution established in the Republic of Croatia or another Member State disposes, for consideration, of a ship or an aircraft subject to registration in a public register, or instruments or rights in such instruments the existence or transfer of which presupposes their being recorded in a public register, an account or a centralised deposit system held or located in the Member State in question, the validity of that legal act shall be governed by the law of the Member State within the territory of which the immovable asset is situated or under the authority of which that public register, account or deposit system is kept.

Lawsuits pending

Article 356

The legal effects of reorganisation measures, winding-up or bankruptcy proceedings on a pending lawsuit concerning an asset or a right which has been included in the estate shall be governed solely by the law of the Member State in which the lawsuit is pending.

Duty to protect the confidentiality of information

Article 357

All persons required to divulge or receive information in connection with the notification or consultation procedures laid down in Article 345 of this Act shall be bound by the duty to protect the confidentiality of information in accordance with the provisions of this Act on the exchange and protection of confidential information, with the exception of any judicial authorities.

XXIX NOTIFICATION OF BREACHES OF REGULATIONS

Notification of breaches of regulations

Article 358

(1) The Croatian National Bank shall provide for a reliable mechanism of delivering notifications of breaches of this Act and subordinate legislation adopted under this Act, Regulation (EU) No 575/2013 and regulations adopted under that Regulation.

(2) The Croatian National Bank shall encourage delivering of the notifications of breaches referred to in paragraph (1) of this Article.

(3) For the purpose of delivering the notifications referred to in paragraph (1) of this Article, the Croatian National Bank:

1) may adopt procedures to further regulate the receipt of notifications of breaches and their follow-up, including clear rules on confidentiality of data concerning the person who delivers the notification and the natural person who is allegedly responsible for a breach;

2) shall ensure appropriate protection for employees of credit institutions who deliver the notification referred to in paragraph (1) of this Article for the purpose of their protection against possible discrimination or other types of unfair treatment.

(4) The Croatian National Bank shall treat personal data in the notification referred to in paragraph (1) of this Article in accordance with the regulations governing the protection of personal data.

(5) By way of derogation from paragraph (3), item (1) of this Article, the Croatian National Bank may use the data on the person who delivers the notification referred to in paragraph (1) of this Article if this is required for the purpose of investigation in criminal proceedings or initiation of other court proceedings.

Obligations of credit institutions regarding notification of breaches of regulations

Article 359

(1) Credit institutions shall prescribe internal procedures for their employees to report, internally through a specific, independent and autonomous channel, any possible breach of regulations committed by responsible persons or other employees. Internal procedures must also contain the manner in which credit institutions shall deal with such reports.

(2) Persons who receive the information referred to in paragraph (1) of this Article shall be bound by the duty to protect their confidentiality.

(3) Credit institutions shall not discriminate against employees who deliver the notification referred to in paragraph (1) of this Article or the notification referred to in Article 358 of this Act, put them in a less favourable position than the position of other employees, and such notification shall not constitute grounds for termination of an employment contract or another contract under which an employee works for the credit institution.

(4) The requirement to provide the channel referred to in paragraph (1) of this Article may also be met through arrangements provided for by social partners.

XXX PENALTY PROVISIONS

Misdemeanours by credit institutions

Article 360

(1) A bank shall be fined between HRK 375,000.00 and up to 10% of the infringed protected value:

1) if it grants credits or issues guarantees or other commitments contrary to the provisions of Article 21 of this Act;

2) if it acquires holdings in another legal person contrary to the provisions of Article 23 of this Act;

3) if it fails to ensure that no rights arising from the shares ordered to be sold are exercised by the acquirer without prior approval or if it fails to notify the Croatian National Bank of any changes of shareholders in accordance with Article 30, paragraph (8) of this Act;

4) if it breaches the provisions on the management board referred to in Article 36, paragraph (1), (2), (3), (4), (5) or (6) of this Act;

5) if it selects or appoints a supervisory board member without prior approval contrary to Article 46, paragraph (1) of this Act;

6) if it carries out activities contrary to Article 59 of this Act;

7) if it effects any of the changes in status referred to in Article 63 of this Act without authorisation by the Croatian National Bank;

8) if it establishes a branch in another Member State without authorisation by the Croatian National Bank and without notifying the Croatian National Bank in advance (Article 75, paragraph (1));

9) if, as a parent credit institution, it fails to notify the Croatian National Bank in advance that its subsidiary financial institution established a branch in another Member State (Article 76, paragraph (1));

10) if it begins to provide services through a branch situated in another Member State contrary to Article 77 of this Act;

11) if it begins to directly provide banking services or recognised financial services without notifying the Croatian National Bank in advance of its intention (Article 80, paragraph (1));

12) if, as an RC parent credit institution, it fails to notify the Croatian National Bank in advance that its subsidiary financial institution began to directly provide recognised financial services (Article 80, paragraph (2));

13) if it establishes a branch in a third country without prior authorisation by the Croatian National Bank (Article 81, paragraph (3));

14) if it makes advance profit or dividend payments, pays out profits or dividends or makes payments deriving from the participation of its management board, supervisory board or employees in the profits of the credit institution contrary to Article 99 of this Act;

15) if it contracts the payment of variable remuneration contrary to Article 100 of this Act;

16) if it fails to establish or implement governance arrangements in accordance with Article 101, paragraph (1) of this Act;

17) if it fails to establish effective management of all risks in accordance with Article 103 of this Act or if it acts contrary to credit risk management rules, rules for the management of market risks, operational risk management rules and rules for the management of other risks referred to in subordinate legislation adopted pursuant to Article 101, paragraph (2), item (1) of this Act;

18) if it fails to calculate a change in the economic value of the credit institution that arises from the non-trading book as a result of a standard interest rate shock, if it fails to notify the Croatian National Bank on exposure to interest rate risk in the non-trading book or if it acts contrary to other procedures and principles to manage interest rate risk in the non-trading book referred to in subordinate legislation adopted under Article 101, paragraph (2), item (1) of this Act;

19) if it fails to calculate liquidity positions in accordance with subordinate legislation adopted under Article 101, paragraph (2), item (1) of this Act or if it acts contrary to other liquidity risk management rules under the same subordinate legislation;

20) if it acts contrary to rules on information system management and management of risks arising from the use of the information system referred to in subordinate legislation adopted under Article 101, paragraph (2), item (1) of this Act;

21) if it fails to allocate exposures into groups by recoverability, if it fails to determine value adjustments, impairment of on-balance sheet items and provisions for off-balance sheet items or if it acts contrary to other rules regarding monitoring of credit risk-bearing portfolios referred to in subordinate legislation adopted under Article 101, paragraph (2), item (2) of this Act;

22) if it fails to identify a group of connected clients in accordance with subordinate legislation adopted under Article 101, paragraph (2), item (3) of this Act;

23) if it acts contrary to rules on provisions for litigation costs and legal risk referred to in subordinate legislation adopted under Article 101, paragraph (2), item (4) of this Act;

24) if it acts contrary to requirements regarding employee remuneration, if it fails to report to the Croatian National Bank on employee remuneration or if it acts contrary to other rules, procedures and criteria regarding remuneration policies referred to in subordinate legislation adopted under Article 101, paragraph (2), item (5) of this Act;

25) if it fails to report to the Croatian National Bank in accordance with subordinate legislation adopted under Article 101, paragraph (2), item (7) of this Act or if it provides incomplete or inaccurate information;

26) if it fails to prepare and deliver recovery plans in accordance with subordinate legislation adopted under Article 101, paragraph (2), item (8) of this Act and Article 154 of this Act;

27) if it fails to allocate reserves for general banking risks, and to calculate individual and all open positions and the largest permitted difference between these positions and limits determining special conditions for the operation of credit institutions in accordance with subordinate legislation adopted under Article 101, paragraph (3) of this Act;

28) if it fails to establish internal control systems in accordance with Article 104, paragraph (2), Article 105, paragraphs (1) and (2) and Articles 106 and 107 of this Act or if it acts contrary to subordinate legislation adopted under Article 105, paragraph (3) of this Act;

29) if a person responsible for the operation of a control function fails to notify the credit institution's management and supervisory board and the Croatian National Bank in accordance with Article 108 of this Act;

30) if it fails to have in place, implement and regularly review strategies and procedures to assess the adequacy of internal capital in accordance with Article 113 of this Act;

31) if it uses internal models or approaches contrary to Article 114 of this Act;

32) if it fails to maintain a countercyclical capital buffer in accordance with Article 118, paragraphs (1) and (2) of this Act;

33) if it fails to maintain a structural systemic risk buffer in accordance with Article 130, paragraphs (1) and (2) of this Act;

34) if it fails to maintain a G-SII buffer in accordance with Article 135, paragraphs (4) and (5) of this Act;

35) if it fails to maintain an O-SII buffer in accordance with Article 137, paragraphs (5), (6) and (7) of this Act;

36) if it makes a distribution in connection with common equity tier 1 capital contrary to the provisions of Article 140, paragraph (1) of this Act;

37) if it fails to notify the Croatian National Bank on the calculated maximum distributable amount in the manner referred to in Article 140, paragraph (2) of this Act;

38) if it fails to calculate or if it incorrectly calculates the maximum distributable amount in accordance with subordinate legislation adopted under Article 140, paragraph (6) of this Act;

39) if it makes a distribution in connection with common equity tier 1 capital, creates an obligation to pay variable remuneration or discretionary pension benefits or pays variable remuneration or makes payments on additional tier 1 instruments before it has calculated the maximum distributable amount and thereby acts contrary to the provisions of Article 140, paragraph (3) of this Act, or if in this manner it distributes more than the maximum distributable amount and thereby acts contrary to Article 140, paragraph (5) of this Act;

40) if it fails to notify the Croatian National Bank of its intention to distribute profits or undertake an action referred to in Article 140, paragraph (3) of this Act or if it fails to provide the prescribed information, which is contrary to the provisions of Article 142, paragraph (1) of this Act;

41) if it fails to have in place, implement and regularly review arrangements in accordance with Article 142, paragraph (2) of this Act;

42) if it fails to prepare a capital conservation plan in the manner prescribed or if it fails to submit it to the Croatian National Bank within the time limits prescribed, which is contrary to the provisions of Article 143, paragraph (1) or (3) of this Act;

43) if it fails to report information or provides incomplete or inaccurate information to the Croatian National Bank on the capital buffers and the capital conservation measures, which is contrary to subordinate legislation adopted under Article 144 of this Act;

44) if it concludes a legal arrangement without prior approval of the supervisory board contrary to the provisions of Article 147, paragraph (1) or (2) of this Act;

45) if it acts contrary to the provisions on the limits on holdings referred to in Article 148, paragraph (1) of this Act and if it fails to calculate limits on holdings or if it acts contrary to other rules regarding limits on holdings of tangible assets referred to in subordinate legislation adopted under Article 101, paragraph (2), item (6) of this Act;

46) if it acquires a holding without prior approval of the Croatian National Bank contrary to the provisions of Article 149, paragraph (1) or (2) of this Act;

47) if it acts contrary to the provisions on the sale of placements referred to in Article 150, paragraphs (2) to (5) of this Act or if it acts contrary to subordinate legislation adopted under Article 150, paragraph (7) of this Act;

48) if it fails to report to the Croatian National Bank of the facts and circumstances referred to in Article 151 of this Act;

49) if it fails to deliver to the Croatian National Bank the reports and information referred to in Article 153 of this Act;

50) if it fails to deliver to the Croatian National Bank its statements and reports or if it fails to publish such statements and reports in accordance with the provisions of Articles 163 and 164 of this Act;

51) if it fails to ensure the audit of the financial statements in the manner referred to in Article 168, paragraph (1) of this Act;

52) if it fails to enable authorised persons to carry out on-site examinations in the manner and under conditions referred to in Articles 184, 186 and 187 of this Act;

53) if it fails to act in accordance with a decision adopted by the Croatian National Bank under the provisions of this Act or Regulation (EU) No 575/2013;

54) if it fails to notify the Croatian National Bank of the date of convening the general meeting within the time limit prescribed for notifying the credit institution's shareholders of the convening of the general meeting or if it fails to permit a representative of the Croatian National Bank to attend the general meeting in accordance with Article 227, paragraph (1) or (2) of this Act;

55) if it fails to meet an obligation regarding notification of breaches of regulations in the manner referred to in Article 359 of this Act or if, in any manner whatsoever, it puts employees who deliver the notification of breaches of regulations in a less favourable position;

56) if, in the period prior to the adoption of regulations under this Act and Regulation (EU) No 575/2013 it fails to act in accordance with the provisions of subordinate legislation referred to in Article 388 of this Act;

57) if it fails to calculate own funds in accordance with Part Two of Regulation (EU) No 575/2013;

58) if it makes payments to holders of instruments included in the own funds in cases where Article 28, 51 or 63 of Regulation (EU) 575/2013 prohibit such payments;

59) if any of its capital ratios fall below the level laid down in Article 92 of Regulation (EU) No 575/2013;

60) if it fails to calculate own funds requirements in accordance with Part Three of Regulation (EU) No 575/2013;

61) if it fails to report information or provides incomplete or inaccurate information to the Croatian National Bank on compliance with the own funds requirements laid down in Article 92 of Regulation (EU) No 575/2013, and thereby acts contrary to Article 99 of Regulation (EU) No 575/2013;

62) if it fails to report information or provides incomplete or inaccurate information to the Croatian National Bank on losses and exposure values, and thereby acts contrary to Article 101 of Regulation (EU) No 575/2013;

63) if it fails to meet the requirements for the trading book set out in Articles 102 to 106 of Regulation (EU) No 575/2013;

64) if it fails to calculate exposures or fails to act in accordance with other requirements for large exposures set out in Part Four of Regulation (EU) No 575/2013;

65) if it fails to report information or provides incomplete or inaccurate information on large exposures to the Croatian National Bank, which is contrary to Article 394, paragraph (1) of Regulation (EU) No 575/2013;

66) if it incurs an exposure in excess of the limit set out in Article 395 of Regulation (EU) No 575/2013;

67) if it fails to notify the Croatian National Bank on exceeding the maximum permitted exposure limits in the manner prescribed in Article 396 of Regulation (EU) No 575/2013;

68) if it is exposed to the credit risk of a securitisation position without satisfying the conditions set out in Article 405 of Regulation (EU) No 575/2013 or if it fails to act in accordance with the requirements set out in Part Five of Regulation (EU) No 575/2013;

69) if it repeatedly or persistently fails to maintain sufficient liquid assets, which is contrary to Article 412 of Regulation (EU) No 575/2013;

70) if it fails to ensure that long term obligations are adequately met with a diversity of stable funding instruments in accordance with Article 413 of Regulation (EU) No 575/2013;

71) if it fails to notify the Croatian National Bank and submit to it a plan for the timely restoration of compliance, and thereby acts contrary to Article 414 of Regulation (EU) No 575/2013;

72) if it fails to report information or provides incomplete or inaccurate information on liquidity to the Croatian National Bank, which is contrary to Article 415, paragraphs (1) and (2) of Regulation (EU) No 575/2013;

73) if it fails to develop methodologies and processes to calculate and report the market value and haircuts for shares or units in investment funds in accordance with Article 418, paragraph (4) of Regulation (EU) No 575/2013;

74) if it fails to calculate the leverage ratio in accordance with Article 429 of Regulation (EU) No 575/2013;

75) if it fails to report information or provides incomplete or inaccurate information on the leverage ratio to the Croatian National Bank, which is contrary to Article 430, paragraph (1) of Regulation (EU) No 575/2013;

76) if it fails to disclose information or provides incomplete or inaccurate information, which is contrary to Article 431, paragraphs (1), (2) and (3) and Article 451, paragraph (1) of Regulation (EU) No; and

77) if it acts contrary to subordinate legislation adopted by the Croatian National Bank under its powers under Regulation (EU) No 575/2013.

(2) A responsible person of the bank's management board shall be fined between HRK 18,000.00 and HRK 100,000.00 for any of the misdemeanours referred to in paragraph (1) of this Article.

(3) A savings bank shall be fined between HRK 75,000.00 and up to 10% of the infringed protected value in the preceding business year for any of the misdemeanours referred to in paragraph (1) of this Article.

(4) A responsible person of the savings bank's management board shall be fined between HRK 7,500.00 and HRK 30,000.00 for any of the misdemeanours referred to in paragraph (1) of this Article.

(5) A housing savings bank shall be fined between HRK 180,000.00 and up to 10% of the infringed protected value in the preceding business year for any of the misdemeanours referred to in paragraph (1) of this Article.

(6) A responsible person of the housing savings bank's management board shall be fined between HRK 7,500.00 and HRK 50,000.00 for any of the misdemeanours referred to in paragraph (1) of this Article.

(7) A bank shall be fined between HRK 375,000.00 and up to 10% of the infringed protected value if, contrary to Article 39, paragraph (1) of this Act, it appoints a management board member without prior approval or if, contrary to Article 40, paragraph (1) of this Article, it appoints a chairperson of the management board without prior approval.

(8) A housing savings bank shall be fined between HRK 180,000.00 and up to 10% of the infringed protected value if it appoints a management board member without the prior approval referred to in Article 39 or 40 of this Act.

(9) A savings bank shall be fined between HRK 75,000.00 and up to 10% of the infringed protected value if it appoints a management board member without the prior approval referred to in Article 39 or 40 of this Act.

(10) A responsible person of the supervisory board shall be fined between HRK 18,000.00 and HRK 100,000.00 for any of the misdemeanours referred to in paragraph (7), (8) or (9) of this Article.

Other misdemeanours by credit institutions

Article 361

(1) A credit institution shall be fined between HRK 37,5000.00 and up to 3% of the infringed protected value:

- 1) if its preferential shares exceed the limit referred to in Article 22 of this Act;
- 2) if it fails to notify the Croatian National Bank of the termination of the term of office of members of the management or supervisory board or if it fails to state the reasons for the termination contrary to Article 35, paragraph (4) of this Act;
- 3) if it breaches the provisions on the employment status of management board members referred to in Article 37 of this Act;
- 4) if it fails to adopt or implement an appropriate policy for selecting and assessing compliance with the criteria for management board members contrary to Article 38, paragraph (2) of this Act or acts contrary to the subordinate regulation adopted by the Croatian National Bank under Article 38, paragraph (3) of this Act;
- 5) if it fails to adopt or implement an appropriate policy for selecting and assessing compliance with the criteria for supervisory board members contrary to Article 45, paragraph (4) of this Act or acts contrary to the subordinate regulation adopted by the Croatian National Bank under Article 45, paragraph (5) of this Act;
- 6) if it fails to ensure that members of the risk committee or the risk and audit committee have adequate access to information in accordance with the provisions of Article 52, paragraph (5) of this Act;
- 7) if it fails to identify key functions in accordance with Article 54, paragraph (1) of this Act or to adopt and implement appropriate policies for selecting and assessing the suitability of key function holders in accordance with Article 54, paragraph (2) of this Act or if it fails to take appropriate measures to ensure the suitability of a key function holder in accordance with Article 54, paragraph (3) of this Act, or acts contrary to the subordinate regulation adopted by the Croatian National Bank under Article 54, paragraph (4) of this Act;
- 8) if it fails to notify the Croatian National Bank and the competent authority of the host Member State at least one month before effecting the change in the operation of its branch situated in a Member State (Article 78);
- 9) if it establishes a representative office outside the Republic of Croatia without notifying the Croatian National Bank (Article 82);
- 10) if in the course of outsourcing it acts contrary to Articles 109 to 111 of this Act;
- 11) if it fails to take appropriate measures to develop and use internal approaches for calculating own funds requirements in accordance with the provision of Article 115, paragraph (1) of this Act;
- 12) if it fails to ensure that an agreement in writing is given in a separate document in accordance with Article 157, paragraph (5) of this Act;

13) if it keeps business books, prepares, checks and stores bookkeeping documents, evaluates bookkeeping entries, follows the chart of accounts or prepares financial statements contrary to the provisions of Articles 159 to 161 of this Act or contrary to subordinate legislation adopted under Article 162 of this Act;

14) if in its public disclosures it fails to act in accordance with the frequency of and time limits for public disclosure prescribed by subordinate legislation adopted under Article 165 of this Act or if it fails to disclose information in accordance with Article 166 of this Act;

15) if it fails to deliver to the Croatian National Bank a decision to appoint an audit firm in accordance with Article 169, paragraph (2) of this Act;

16) if it fails to notify and explain to the Croatian National Bank the termination of a contract with an audit firm in accordance with Article 171, paragraph (1) of this Act;

17) if it acts contrary to subordinate legislation adopted under Article 175 of this Act;

18) if it fails to meet the obligations relating to supervision of intra-group transactions, and thereby acts contrary to Article 292, paragraph (2) of this Act;

19) if it fails to provide key service information in the manner referred to in Article 301, paragraph (1) of this Act or if it fails to provide such information in accordance with subordinate legislation adopted under Article 301, paragraph (2) of this Act;

20) if it acts contrary to the provisions on service contracts referred to in Article 302 of this Act;

21) if it acts contrary to the provisions on disclosure of its general operating conditions laid down in Article 303, paragraphs (1), (2) and (3) of this Act;

22) if it acts contrary to subordinate legislation adopted under Article 304 of this Act;

23) if it fails to notify a consumer, co-debtor, pledgor or guarantor in accordance with the provisions of Article 305, paragraphs (1) to (4) of this Act;

24) if it fails to apply regulations in accordance with Article 306 of this Act on credit contracts regardless of the total amount and the type of credit granted to a consumer by the credit institution;

25) if it offers to contract a variable interest rate without warning the consumer in advance of all risks associated with the variability of the interest rate or if it fails to contract the parameters affecting the change in the contracted interest rate and thereby acts contrary to the provision of Article 307, paragraph (1) of this Act, or if it concludes a contract on a short-term deposit or a short-term credit with a variable interest rate and thereby acts contrary to the provision of Article 307, paragraph (2) of this Act, or if it contracts promotional interest rates on contracts other than short-term and thereby acts contrary to the provision of Article 307, paragraph (3) of this Article, or if it charges fees contrary to Article 308 of this Act;

26) if it fails to submit additional data, reports and other bylaws required by the Croatian National Bank in accordance with Article 309, paragraph (2) of this Act within a specified time limit;

27)) if it fails to appoint a person responsible for addressing consumer complaints or if it fails to entrust at least one of its employees with the task of addressing consumer complaints in accordance with Article 309, paragraph (4) of this Act;

28) if it fails to deliver to the Croatian National Bank data on consumer complaints in the manner and within the time limits laid down by the Croatian National Bank (Article 309, paragraph (7));

29) if it fails to apply a method for prudential consolidation prescribed in Article 18, paragraph (1) of Regulation (EU) No 575/2013;

30) if it fails to include in consolidation the undertakings referred to in Article 18, paragraph (8) of Regulation (EU) No 575/2013;

31) if it excludes an undertaking from consolidation in a manner contrary to the provision of Article 19, paragraphs (1) and (3) of Regulation (EU) No 575/2013;

32) if it fails to report information or provides incomplete or inaccurate information to the Croatian National Bank on the level of its repurchase agreements, securities lending and all forms of encumbrance of assets in accordance with Article 100 of Regulation (EU) No 575/2013;

33) if it fails to adopt a policy regarding disclosure of information in accordance with Article 431, paragraph (3) of Regulation (EU) No 575/2013;

34) if it fails to explain in writing a rating decision in accordance with Article 431, paragraph (4) of Regulation (EU) No 575/2013;

35) if it fails to disclose information in accordance with the frequency required under Article 433 of Regulation (EU) No 575/2013; and

36) if it fails to comply with the provisions on the means of disclosures under Article 434 of Regulation (EU) No 575/2013.

(2) A responsible person of the credit institution's management board shall be fined between HRK 3,500.00 and HRK 20,000.00 for any of the misdemeanours referred to in paragraph (1) of this Article.

(3) A responsible person of the credit institution's supervisory board shall be fined between HRK 3,500.00 and HRK 20,000.00 for the misdemeanour referred to in paragraph (1), item (3) of this Article.

Misdemeanours by savings banks

(1) A savings bank shall be fined between HRK 75,000.00 and up to 10% of the infringed protected value:

- 1) if the words 'savings bank' are not contained in its firm name (Article 313, paragraph (2));
- 2) if it carries out activities contrary to the provisions of Article 315, paragraphs (1) and (2) of this Act;
- 3) if it establishes a branch or representative office abroad (Article 315, paragraph (3)); or
- 4) if it has preferential shares in its initial capital contrary to Article 316 of this Act.

(2) A responsible person of the savings bank's management board shall be fined between HRK 7,500.00 and HRK 20,000.00 for any of the misdemeanours referred to in paragraph (1) of this Article.

Other misdemeanours by the management and supervisory board

Article 363

(1) Members of a credit institution's management board shall be fined between HRK 3,500.00 and HRK 20,000.00:

- 1) if they fail to establish and implement effective and sound governance arrangements in accordance with Article 41, paragraphs (1), (3), (4) and (5) of this Act;
- 2) if they fail to notify the supervisory board without delay of the circumstances referred to in Article 42 of this Act; or
- 3) if they fail to deliver reports and information to the Croatian National Bank in the manner and within the time limit referred to in Article 179, paragraph (4) of this Act.

(2) Members of a credit institution's supervisory board shall be fined between HRK 3,500.00 and HRK 20,000.00:

- 1) if they fail to submit an application to the Croatian National Bank for prior approval for the chairperson or member of the management board within the time limit referred to in Article 39, paragraph (13) of this Act;
- 2) if they fail to adopt the decision referred to in Article 44, paragraph (6) of this Act without delay;
- 3) if they fail to perform their duties in accordance with Article 49, paragraph (1), items (1), (2), (3), (5), (6) and (7) of this Act;
- 4) if they fail to notify the Croatian National Bank without delay of the circumstances referred to in Article 49, paragraph (1), item (4) of this Act; or

5) if they fail to establish committees in accordance with Article 50 of this Act, if supervisory board committees act contrary to Articles 51 to 53 of this Act or if they act contrary to subordinate legislation adopted under Article 100, paragraph (2), item (5) of this Act.

Misdemeanours by other persons

Article 364

(1) A legal person using the words 'credit institution', 'bank', 'savings bank', 'housing savings bank', or derivatives of these words contrary to the provisions of Article 6, 313 or 319 of this Act shall be fined between HRK 7,500.00 and up to 10% of the infringed protected value.

(2) A responsible person of the legal person that committed the misdemeanour referred to in paragraph (1) of this Article shall be fined between HRK 3,500.00 and HRK 20,000.00.

(3) A legal person who takes deposits or other repayable funds from the public contrary to the prohibition referred to in Article 57 of this Act shall be fined between HRK 75,000.00 and up to 10% of the infringed protected value.

(4) A responsible person of the legal person that committed the misdemeanour referred to in paragraph (3) of this Article shall be fined between HRK 37,500.00 and HRK 100,000.00.

(5) A natural person who takes deposits or other repayable funds from the public contrary to the prohibition referred to in Article 57 of this Act shall be fined between HRK 37,500.00 and HRK 100,000.00.

(6) A legal person who is a shareholder of a credit institution and who acquires shares of a credit institution in a manner contrary to the provisions of Article 24, paragraphs (1) and (2) of this Act or fails to comply with the order of the Croatian National Bank referred to in Article 30, paragraphs (1) and (2) of this Act shall be fined between HRK 375,000.00 and up to 10% of the infringed protected value.

(7) A responsible person of the legal person that committed the misdemeanour referred to in paragraph (6) of this Article shall be fined between HRK 37,500.00 and HRK 100,000.00.

(8) A natural person who is a shareholder of a credit institution and who acquires shares of a credit institution in a manner contrary to the provisions of Article 24, paragraphs (1) and (2) of this Act or fails to comply with the order of the Croatian National Bank referred to in Article 30, paragraphs (1) and (2) of this Act shall be fined between HRK 37,500.00 and HRK 100,000.00.

(9) A legal person who is a shareholder of a credit institution and who fails to act in accordance with the provisions of Article 24, paragraphs (13) and (15) of this Act shall be fined between HRK 375,000.00 and up to 10% of the infringed protected value.

(10) A responsible person of the legal person that committed the misdemeanour referred to in paragraph (9) of this Article shall be fined between HRK 37,500.00 and HRK 100,000.00.

(11) A natural person who is a shareholder of a credit institution and who fails to act in accordance with the provisions of Article 24, paragraphs (13) and (15) of this Act shall be fined between HRK 37,500.00 and HRK 100,000.00 kuna.

(12) A legal person who is a shareholder of a credit institution and who fails to act in accordance with the provision of Article 24, paragraph (5) of this Act shall be fined between HRK 375,000.00 and up to 10% of the infringed protected value.

(13) A responsible person of the legal person that committed the misdemeanour referred to in paragraph (12) of this Article shall be fined between HRK 37,500.00 and HRK 100,000.00.

(14) A natural person who is a shareholder of a credit institution and who fails to act in accordance with the provision of Article 24, paragraph (5) of this Act shall be fined between HRK 37,500.00 and HRK 100,000.00 kuna.

(15) Legal persons who are holders of a qualifying holding and who fail to notify the Croatian National Bank, or who fail to notify the Croatian National Bank within the time limit referred to in Article 24, paragraph (8) of this Act, of any process of merger by acquisition, merger by formation of a new undertaking or division of a credit institution in which they participate or of any other change in the status shall be fined between HRK 37,500.00 and up to 3% of the infringed protected value.

(16) A responsible person of the legal person that committed the misdemeanour referred to in paragraph (15) of this Article shall be fined between HRK 7,500.00 and HRK 50,000.00.

(17) Natural persons who are holders of a qualifying holding and who fail to notify the Croatian National Bank, or who fail to notify the Croatian National Bank within the time limit referred to in Article 24, paragraph (8) of this Act, of any process of merger by acquisition, merger by formation of a new undertaking or division of a credit institution in which they participate or of any other change in the status shall be fined between HRK 7,500.00 and HRK 50,000.00.

(18) The legal persons referred to in Article 179, paragraph (2) of this Act who fail to deliver reports and information to the Croatian National Bank or who fail to enable an examination of a part of their operation shall be fined between HRK 75,000.00 and up to 10% of the infringed protected value.

(19) A responsible person of the legal person that committed the misdemeanour referred to in paragraph (18) of this Article shall be fined between HRK 7,500.00 and HRK 50,000.00.

(20) The natural persons referred to in Article 179, paragraph (2) of this Act who fail to deliver reports and information to the Croatian National Bank or who fail to enable an examination of a part of their operation shall be fined between HRK 7,500.00 and HRK 50,000.00.

Misdemeanours by members of a group of credit institutions

(1) A fine between HRK 750,000.00 and up to 10% of the infringed protected value shall be imposed on:

1) a parent financial holding company or parent mixed financial holding company which fails to act in accordance with Article 24, paragraph (10) of this Act;

2) an RC parent credit institution or the subsidiary credit institution referred to in Article 97, paragraph (2) of this Act which has to comply with prudential requirements on a consolidated basis for a group or sub-group of credit institutions if it fails to meet the requirements referred to in Article 97 of this Act, or the parent financial holding company or parent mixed financial holding company referred to in Article 278 of this Act if it fails to meet the requirements referred to in Article 97, paragraphs (4) to (7) of this Act;

3) a subsidiary member of a group of credit institutions in the RC or the parent financial holding company or parent mixed financial holding company referred to in Article 278, paragraphs (1) and (3) to (5) of this Act if it fails to meet its obligations referred to in Article 281, paragraph (1) of this Act to the parent credit institution of the group or the credit institution referred to in Article 97, paragraph (2) of this Act;

4) an RC parent credit institution or the credit institution referred to in Article 97, paragraph (2) of this Act which fails to meet its obligation referred to in Article 281, paragraph (2) of this Act;

5) a subsidiary member of a group of credit institutions in the RC or the parent financial holding company or parent mixed financial holding company referred to in Article 278, paragraphs (1) and (3) to (5) of this Act if it fails to enable the Croatian National Bank to exercise supervision of its operations in accordance with Article 281, paragraph (3) of this Act;

6) the parent undertaking of a credit institution which has its head office in the Republic of Croatia and is not included in consolidation of the parent undertaking, which fails to meet its obligations referred to in Article 281, paragraph (4) of this Act;

7) persons the parent undertaking of which is a credit institution which has its head office in the Republic of Croatia, the parent financial holding company or parent mixed financial holding company referred to in Article 278, paragraphs (1) and (3) to (5) of this Act, which are not included in supervision on a consolidated basis and which fail to meet their obligations referred to in Article 281, paragraph (5) of this Act;

8) legal persons who fail to act in accordance with subordinate regulations adopted under Article 290 of this Act;

9) a mixed-activity holding company and its subsidiaries which fail to meet their obligations referred to in Article 291, paragraph (1) of this Act; or

10) an RC parent credit institution if it fails to publicly disclose information on the governance and organisation in accordance with Article 166, paragraph (1) or (2) of this Act.

(2) A responsible person of the management board of the legal person that committed any of the misdemeanours referred to in paragraph (1) of this Article shall be fined between HRK 18,000.00 and HRK 100,000.00.

Misdemeanours by audit firms and certified auditors

Article 366

(1) An audit firm shall be fined between HRK 75,000.00 and HRK 500,000.00:

1) if it fails to carry out an audit of financial statements and to prepare an audit report in accordance with Article 168, paragraph (2) of this Act;

2) if it fails to deliver an audit plan to the Croatian National Bank within the time limit and in the manner prescribed in Article 169, paragraph (4) of this Act;

3) if it fails to notify and explain to the Croatian National Bank the termination of a contract with a credit institution in accordance with Article 171, paragraph (1) of this Act;

4) if it fails to meet its obligations referred to in Article 172, paragraph (1), (2) or (3) of this Act;
or

5) if it fails to carry out an audit for the purposes of the Croatian National Bank in accordance with Article 174 of this Act and the regulations adopted under paragraph (6) of the same Article.

(2) A responsible person of the legal person that committed any of the misdemeanours referred to in paragraph (1) of this Article shall be fined between HRK 37,500.00 and HRK 100,000.00.

(3) A certified auditor shall be fined between HRK 7,500.00 and HRK 50,000.00 for any of the misdemeanours referred to in paragraph (1) of this Article.

Misdemeanours related to the obligation of banking secrecy

Article 367

(1) A credit institution that breaches the provisions of Article 156, paragraph (1) or Article 157, paragraph (1), (2), (5) or (6) of this Act on the obligation of banking secrecy shall be fined between HRK 375,000.00 and HRK 1,000,000.00.

(2) A responsible person of the credit institution's management board shall be fined between HRK 18,000.00 and HRK 100,000.00 for the misdemeanour referred to in paragraph (1) of this Article.

(3) A legal person shall be fined between HRK 375,000.00 and HRK 1,000,000.00 for any of the misdemeanours referred to in Article 157, paragraphs (1) and (6) of this Act. A responsible person of that legal person shall be fined between HRK 18,000.00 and HRK 100,000.00 for any of the misdemeanours referred to in Article 157, paragraphs (1) and (6) of this Act.

(4) A natural person shall be fined between HRK 18,000.00 and HRK 100,000.00 for any of the misdemeanours referred to in Article 157, paragraphs (1) and (6) of this Act.

(5) The legal person referred to in Article 158, paragraph (1) of this Act who breaches the provisions of this Act on the obligation of banking secrecy shall be fined between HRK 375,000.00 and HRK 1,000,000.00.

(6) A responsible person of the legal person referred to in Article 158, paragraph (1) of this Act shall be fined between HRK 18,000.00 and HRK 100,000.00 for the misdemeanour referred to in paragraph (5) of this Article.

(7) The natural person referred to in Article 158, paragraph (2) of this Act who breaches the provisions of Article 156, paragraph (1) of this Act on the obligation of banking secrecy shall be fined between HRK 18,000.00 and HRK 100,000.00.

XXXI TRANSITIONAL AND FINAL PROVISIONS

XXXI.1 PROVISIONS ON THE POWERS OF THE CROATIAN NATIONAL BANK WITH REGARD TO CREDIT INSTITUTIONS PROVIDING SERVICES IN THE REPUBLIC OF CROATIA THROUGH BRANCHES OR DIRECTLY UNTIL THE DATE ON WHICH THE LIQUIDITY COVERAGE REQUIREMENT BECOMES APPLICABLE IN ACCORDANCE WITH A DELEGATED ACT

Application of other provisions of this Act and other regulations to credit institutions of other Member States

Article 368

(1) The following shall apply *mutatis mutandis* to credit institutions of other Member States providing mutually recognised services directly within the territory of the Republic of Croatia:

- 1) provisions of this Act relating to the obligation of banking secrecy (Articles 156 and 157);
- 2) provisions of this Act and regulations adopted under this Act relating to consumer protection (Articles 300 to 312);
- 3) regulations in the Republic of Croatia governing the prevention of money laundering and terrorist financing;
- 4) other regulations which, in the interests of the general good, apply within the territory of the Republic of Croatia; and
- 5) regulations in the Republic of Croatia governing the implementation of monetary policy.

(2) In addition to the provisions of the preceding paragraph, the following shall apply *mutatis mutandis* to credit institutions of other Member States providing mutually recognised services within the territory of the Republic of Croatia through branches:

1) provisions of regulations adopted under this Act relating to reports and information required for performing activities within the competence of the Croatian National Bank in the field of monitoring liquidity risk (Article 101, paragraph (2), item (1));

2) regulations adopted by the Croatian National Bank for the purposes of monetary statistics;

3) regulations relating to the scope of data to be published by branches of credit institutions of the Member States;

4) provisions of Article 163, paragraphs (5) and (6) of this Act on audited annual financial statements; and

5) provisions of Article 200 of this Act and regulations adopted under that Article on annual supervision fees.

(3) The Croatian National Bank shall be empowered to use the information collected pursuant to paragraphs (1) and (2) of this Article for statistical purposes.

(4) The Croatian National Bank may adopt subordinate legislation to further regulate the manner of application of the provisions of paragraphs (1) and (2) of this Article.

Breaches of regulations of Member States

Article 369

(1) Where a credit institution having its head office in the Republic of Croatia and providing services in another Member through a branch breaches regulations of that Member State despite a warning of the competent or supervisory authority of the host Member State, the Croatian National Bank shall impose supervisory measures in accordance with this Act and shall notify that authority without delay.

(2) Where a credit institution having its head office in the Republic of Croatia operates directly or through a branch within the territory of another Member State, the Croatian National Bank or persons it has authorised may carry out an on-site examination after notifying in advance the competent supervisory authority of the host Member State.

(3) The provisions of paragraph (1) of this Article shall not preclude the exercise of supervision on a consolidated basis in accordance with this Act.

Breaches of individual provisions of this Act by credit institutions of other Member States

Article 370

(1) Where the Croatian National Bank establishes that a credit institution of another Member State which provides services in the Republic of Croatia is not complying with the provisions of Article 367 of this Act, it shall impose supervisory measures on that credit institution and establish the time limits to remedy the non-compliance.

(2) If the credit institution fails to remedy the non-compliance within the time limit referred to in paragraph (1) of this Article and fails to deliver evidence of its remedy, the Croatian National Bank shall notify the competent authority of the home Member State accordingly.

(3) Where the competent authority of the home Member State fails to take any measures or if such measures are inadequate or unenforceable so that the credit institution persists in breaching the provisions of Article 368 of this Act, the Croatian National Bank shall notify the competent authority of the home Member State of measures it shall take to prevent further breaches of these provisions.

(4) Following the delivery of the notification referred to in the preceding paragraph to the competent authority of the home Member State, the Croatian National Bank may impose measures on a credit institution which breaches the provisions of Article 368 of this Act within the territory of the Republic of Croatia, including the prohibition on providing services within the territory of the Republic of Croatia.

Notification of precautionary measures

Article 371

By way of derogation from the provisions of Article 370 of this Act, when the Croatian National Bank, in emergency situations, assesses that the interests of depositors, investors and other clients of the credit institution of another Member State which provides services within the territory of the Republic of Croatia are threatened or might be threatened, it shall take precautionary measures against that credit institution. The Croatian National Bank shall without delay notify the competent authorities of the home Member State in question, the European Banking Authority and the European Commission of precautionary measures taken.

Supervision of the liquidity of branches of credit institutions of other Member States

Article 372

(1) The Croatian National Bank shall exercise supervision of the liquidity of branches of credit institutions of other Member States and impose measures necessary for the implementation of monetary policy of the Republic of Croatia.

(2) The provisions of paragraph (1) of this Article shall not preclude the exercise of supervision on a consolidated basis in accordance with this Act.

(3) When imposing measures referred to in paragraph (1) of this Article, the Croatian National Bank shall not apply discriminatory or restrictive treatment against branches of credit institutions

of other Member States based on the fact that a credit institution is authorised in another Member State.

Impact of decisions and actions on the stability of the financial system of the Member States

Article 373

The Croatian National Bank shall, in the exercise of supervision, duly consider the potential impact of its decisions and actions on the stability of the financial system in all other Member States concerned and, in particular, in emergency situations, based on the information available at the relevant time.

Cooperation and exchange of information between the Croatian National Bank and the competent authorities of the Member States

Article 374

(1) The Croatian National Bank and the competent authorities of other Member States shall cooperate in the supervision of credit institutions which, directly or through a branch, provide services within the territory of the Republic of Croatia and the territory of the Member State in question.

(2) The Croatian National Bank and the competent authorities of the Member States, in addition to other reporting obligations under this Act, shall exchange all information concerning:

1) the management and ownership of credit institutions referred to in paragraph (1) of this Article that is likely to facilitate their supervision;

2) the examination of the conditions governing the issue of authorisations or approvals of other supervisory authorities; and

3) information likely to facilitate the supervision of such institutions, in particular with regard to liquidity, solvency, deposit insurance, the limiting of large exposures, other factors that may influence the systemic risk posed by the credit institution, administrative and accounting procedures and internal control systems.

Deciding on the designation of a branch as being significant in cases where the Croatian National Bank is not the consolidating supervisor

Article 375

(1) The Croatian National Bank may make a request to the consolidating supervisor or to the competent authorities of the home Member State concerned, for a branch of a credit institution from that Member State which provides services within the territory of the Republic of Croatia to be considered as significant.

(2) In the request referred to in paragraph (1) of this Article, the Croatian National Bank shall provide reasons for considering the branch to be significant with particular regard to the following:

1) whether the market share of the branch of the credit institution in terms of deposits as defined in the law governing deposit insurance exceeds 2% in the Republic of Croatia;

2) the likely impact of a suspension or closure of the operations of the credit institution on systemic market liquidity and the payment, clearing and settlement systems in the Republic of Croatia; and

3) the size and the importance of the branch in terms of number of clients within the context of the banking or financial system of the Republic of Croatia.

(3) In reaching a joint decision on the designation of a branch as being significant, the Croatian National Bank shall cooperate with the consolidating supervisor or the competent authorities of the home Member State.

(4) If no joint decision is reached between the Croatian National Bank and the consolidating supervisor or the competent authorities of the home Member State within two months of receipt of a request referred to in paragraph (1) of this Article, the Croatian National Bank shall take its own decision within a further period of two months on whether the branch is significant. In taking its own decision, the Croatian National Bank shall take into account any views of the consolidating supervisor or the competent authorities of the home Member State.

(5) The decisions referred to in paragraphs (3) and (4) of this Article shall be recognised as determinative, they must be written and fully reasoned, and delivered to the competent authorities concerned.

(6) The adoption of the decisions referred to in paragraph (3) or (4) of this Article shall not affect the responsibilities of the competent authorities under this Act.

Deciding on the designation of a branch as being significant in cases where the Croatian National Bank is the consolidating supervisor

Article 376

(1) If the Croatian National Bank receives a request from the competent authorities of another Member State for a branch of a credit institution established in the Republic of Croatia and providing services within the territory of that Member State to be considered as significant, the Croatian National Bank shall cooperate with the competent authorities of the Member State concerned in reaching a joint decision on the designation of a branch as being significant.

(2) Where a college of supervisors referred to in Article 283 of this Act has not been established and a credit institution having its head office in the Republic of Croatia has significant branches in other Member States, the Croatian National Bank shall establish and chair a college of supervisors to facilitate the cooperation and exchange of information.

(3) The establishment and functioning of the college referred to in paragraph (2) of this Article shall be based on written arrangements determined, after consulting the competent authorities concerned, by the Croatian National Bank. The Croatian National Bank shall decide which competent authorities participate in a meeting or in an activity of the college, taking account of the potential impact of the supervisory activities to be planned on the stability of the financial system in the Member States concerned.

(4) The Croatian National Bank shall keep all the members of the college of supervisors fully informed, in a timely manner, of the meetings planned, the main issues to be discussed and of the actions taken in those meetings or the measures carried out.

(5) The decision referred to in paragraph (1) of this Article must be written and fully reasoned, and delivered to the competent authorities concerned.

(6) If no joint decision on the designation of a branch as being significant is reached within two months of receipt of a request referred to in paragraph (1) of this Article, and the competent authorities of the host Member State take their own decision on the designation of the branch as being significant within a further period of two months, that decision shall be recognised as determinative by the Croatian National Bank.

(7) The Croatian National Bank shall communicate to the competent authorities of the Member State where a significant branch of a credit institution which has its head office in the Republic of Croatia is established the information referred to in Article 288, paragraph (5), items (3) and (4) of this Act and plan and coordinate the activities referred to in Article 282, paragraph (1), item (3) of this Act in cooperation with the competent authorities of the host Member State.

(8) Where an emergency situation arises within the credit institution referred to in paragraph (1) of this Article, the Croatian National Bank shall without delay notify the persons referred to in Article 210, paragraph (1), item (1) and Article 211, paragraph (1) of this Act.

Powers to supervise the operation of branches

Article 377

(1) Where a credit institution having its head office in another Member State operates through a branch within the territory of the Republic of Croatia, the competent authority of the home Member State may:

1) carry out an on-site examination of the information referred to in Article 374, paragraph (2) of this Act on its own initiative or through a person it authorised, after notifying the Croatian National Bank in advance; or

2) request the Croatian National Bank or a person authorised by the Croatian National Bank to carry out an on-site examination of the branch of a credit institution of that Member State within the territory of the Republic of Croatia.

(2) By way of derogation from paragraph (1) of this Article, the Croatian National Bank may carry out on-site examinations of credit institutions of other Member States concerning the implementation of regulations in accordance with Article 368, paragraph (2) of this Act.

XXXI.2 OTHER TRANSITIONAL AND FINAL PROVISIONS

Authorisations and approvals in force

Article 378

Authorisations and approvals issued before the entry into force of this Act shall remain in force.

Procedures

Article 379

All authorisation and approval procedures initiated before the entry into force of this Act shall be completed in accordance with the provisions of the laws in force up to the date of the entry into force of this Act.

Beginning of the application of a countercyclical capital buffer

Article 380

(1) In the period from 1 January 2015 to 31 December 2018, credit institutions shall calculate a countercyclical capital buffer in accordance with Articles 118 to 128 of this Act only based on exposures located in the Republic of Croatia and other Member States which apply countercyclical capital buffers in that period and for which the Croatian National Bank adopts a decision to recognise that transitional period of application of the countercyclical capital buffer requirement.

(2) The Croatian National Bank may adopt a decision to recognise the transitional period of application of a countercyclical capital buffer requirement specified by the designated authority of another Member State which ends before 31 December 2018.

(3) If the Croatian National Bank recognises the transitional period of application of a countercyclical capital buffer requirement referred to in paragraph (2) of this Article, it shall notify the European Commission, the European Systemic Risk Board, the European Banking Authority and the relevant college of supervisors.

Procedure for setting a structural systemic risk buffer in the transitional period

Article 381

(1) Where in the period from 1 January 2014 to 31 December 2014 the Croatian National Bank sets or resets a structural systemic risk buffer rate up to 3% of the total risk exposure amount, it shall notify the European Commission, the European Systemic Risk Board, the European Banking

Authority and the competent and designated authorities of the Member States concerned at least one month before it publishes a decision in accordance with Article 381 of this Act. If the buffer applies to exposures located in third countries, the Croatian National Bank shall also notify the competent authorities of those third countries.

(2) The notification referred to in paragraph (1) of this Article shall describe in detail:

1) the systemic or macroprudential risk in the Republic of Croatia;

2) the reasons why the dimension of the systemic or macroprudential risks threatens the stability of the financial system in the Republic of Croatia justifying the structural systemic risk buffer rate;

3) the justification for why the Croatian National Bank considers the proposed structural systemic risk buffer likely to be effective and proportionate to mitigate the risk;

4) an assessment of the likely positive or negative impact of the structural systemic risk buffer on the internal market, based on information which is available;

5) the justification for why none of the existing measures in this Act or in Regulation (EU) No 575/2013, excluding Articles 458 and 459 of that Regulation, alone or in combination, would be sufficient to address the identified macroprudential or systemic risk taking into account the relative effectiveness of those measures; and

6) the systemic risk buffer rate that the Croatian National Bank intends to prescribe.

(3) Where in the period from 1 January 2014 to 31 December 2014 the Croatian National Bank intends to set or reset a structural systemic risk buffer rate of above 3% of the total risk exposure amount, it shall notify in advance the European Commission, the European Systemic Risk Board, the European Banking Authority and the competent and designated authorities of the Member States concerned. If the buffer applies to exposures located in third countries, the Croatian National Bank shall also notify the competent authorities of those third countries.

(4) The notification referred to in paragraph (3) of this Article must contain all information referred to in paragraph (2) of this Article.

(5) The Croatian National Bank may apply the rate referred to in paragraph (3) of this Article only after the European Commission adopts an implementing act authorising the implementation of that rate.

Announcement of a structural systemic risk buffer

Article 382

(1) After meeting the requirements for the application of a structural systemic risk buffer in accordance with Article 380 of this Act, the Croatian National Bank shall publish a decision on the

application of the structural systemic risk buffer in the Official Gazette and announce it on its website. The announcement on the website shall include at least the following information:

- 1) the structural systemic risk buffer rate;
- 2) the credit institutions to which the structural systemic risk buffer applies;
- 3) a justification for the structural systemic risk buffer, except in cases where it could jeopardise the stability of the financial system;
- 4) the date from which the credit institutions must apply the structural systemic risk buffer; and
- 5) the names of the countries where exposures located in those countries are recognised in the systemic risk buffer.

(2) The decision referred to in paragraph (1) of this Article shall contain the information referred to in paragraph (1), items (1), (2), (4) and (5) of this Article.

G-SII buffer in the transitional period

Article 383

G-SIIs shall comply with the obligation referred to in Article 135, paragraph (4) of this Act from 1 January 2016 to 31 December 2018 as follows:

- 1) in the period from 1 January 2016 to 31 December 2016, in the amount equal to 25% of the rate prescribed in Article 136, paragraph (4) of this Act;
- 2) in the period from 1 January 2017 to 31 December 2017, in the amount equal to 50% of the rate prescribed in Article 136, paragraph (4) of this Act; and
- 3) in the period from 1 January 2018 to 31 December 2018, in the amount equal to 75% of the rate prescribed in Article 136, paragraph (4) of this Act.

Public disclosure of decisions

Article 384

Decisions which shall be legally effective after the entry into force of this Act shall be publicly disclosed in accordance with Article 215, paragraph (4) of this Act.

Time limits for the adoption of subordinate legislation and adjustment of decisions

Article 385

(1) Within six months of the entry into force of this Act, the Croatian National Bank shall adopt subordinate legislation referred to in Article 38, paragraph (3), Article (45), paragraph (5), Article 92, paragraph (3), Article 113, paragraph (4), Article 140, paragraph (6), Article 173, paragraph (5) and Article 175, paragraph (3) of this Act on the basis of this Act and Regulation (EU) No 575/2013.

(2) Within six months of the entry into force of this Act, the Croatian National Bank shall adjust decisions imposing supervisory measures referred to in Article 236 or 237 of the Credit Institutions Act (Official Gazette 117/2008, 74/2009, 153/2009, 108/2012 and 54/2013) with the provisions of this Act and Regulation (EU) No 575/2013.

Duties of credit institutions

Article 386

(1) The last reports under the Decision on reports on own funds and capital requirements of credit institutions (Official Gazette 1/2009, 41/2009, 75/2009, 2/2010 and 37/2012) shall be completed as at 31 December 2013 and delivered by credit institutions to the Croatian National Bank as follows:

1) unconsolidated unaudited preliminary reports ('NP') by 31 January 2014 at the latest;

2) unconsolidated audited reports ('NR') within 15 days of receipt of the audit report and by 30 April 2014 at the latest; and

3) consolidated audited reports ('KR') within 15 days of receipt of the audit report and by 30 April 2014 at the latest.

(2) Credit institutions shall make a public disclosure as at 31 December 2013 in accordance with the Decision on public disclosure of compliance with prudential requirements by credit institutions (Official Gazette 1/2009, 75/2009, 2/2010, 118/2011 and 67/2013) by 31 May 2014 at the latest.

(3) Credit institutions shall carry out an assessment of the suitability of supervisory board members who have taken up office or will take up office up to 30 June 2014 in accordance with this Act and submit an application for prior approval to perform the function of a member of a credit institution's supervisory board by 30 June 2014 at the latest.

(4) Credit institutions shall establish supervisory board committees in accordance with Articles 51, 52 and 53 of this Act by 30 June 2014 at the latest.

(5) By 1 July 2014, all credit institutions which are identified internationally as GSII shall submit to the European Commission the information referred to in Article 164, paragraph (1), items (4) to (6) of this Act on a confidential basis.

Provisions of this Act that shall cease to have effect on the date on which the liquidity coverage requirement becomes applicable in accordance with a delegated act

Article 387

Articles 368 to 377 of this Act shall cease to have effect on the date of application of the delegated act referred to in Article 460 of Regulation (EU) No 575/2013 in relation to the application of the liquidity coverage requirement.

Application of current subordinate legislation

Article 388

Up to the date of the entry into force of regulations adopted under this Act or Regulation (EU) No 575/2013, the following regulations shall remain in force and be applied in the part not in conflict with Regulation (EU) No 575/2013 and this Act:

- Decision on the effective interest rate of credit institutions and credit unions and on service contracts with consumers;
- Decision on outsourcing;
- Decision on the classification of placements and off-balance sheet liabilities of credit institutions;
- Decision on the chart of accounts for banks;
- Decision on the sale of placements by credit institutions;
- Decision on the method of exercising supervision of credit institutions and imposing supervisory measures;
- Decision on supervisory reports of credit institutions;
- Decision on supervision fees for credit institutions in 2014;
- Decision on the obligation to make provisions for litigations conducted against a credit institution;
- Decision on foreign exchange risk exposure limits of credit institutions;
- Decision on limits on credit institutions' holdings in non-financial institutions and holdings of tangible assets;
- Decision on detailed conditions for the establishment, operation and dissolution of branches of third-country credit institutions in the Republic of Croatia;
- Decision on the internal capital adequacy assessment process for credit institutions;

- Decision on representative offices of credit institutions with head offices outside the Republic of Croatia;
- Decision on employee remuneration;
- Decision on the application of provisions of laws and other regulations within the competence of the Croatian National Bank to credit institutions undergoing winding-up proceedings;
- Decision on adequate information system management;
- Decision on the assessment of the suitability of the chairperson of the management board, members of the management board, members of the supervisory board and key function holders in a credit institution;
- Decision on the content of and the form in which consumers are provided information prior to contracting banking services;
- Decision on the contents of audits of credit institutions;
- Decision on statistical and prudential reporting;
- Decision on the structure and content of annual financial statements of banks;
- Decision on the internal controls system;
- Decision on the management of interest rate risk in the non-trading book;
- Decision on liquidity risk management;
- Decision on risk management; and
- Decision on large exposures of credit institutions.

Regulations that shall cease to have effect

Article 389

The following regulations shall cease to have effect on the date of the entry into force of this Act:

- 1) the Credit Institutions Act (Official Gazette 117/2008, 74/2009, 153/2009, 108/2012 and 54/2013);
- 2) the Decision on the capital adequacy of credit institutions (Official Gazette 1/2009, 75/2009, 2/2010, 118/2011 and 67/2013);

3) the Decision on reports on own funds and capital requirements of credit institutions (Official Gazette 1/2009, 41/2009, 75/2009, 2/2010 and 37/2012);

4) the Decision on own funds of credit institutions (Official Gazette 1/2009, 41/2009, 75/2009, 2/2010 and 118/2011);

5) the Decision on public disclosure of compliance with prudential requirements by credit institutions (Official Gazette 1/2009, 75/2009, 2/2010, 118/2011 and 67/2013); and

6) Decision on the supervision of a group of credit institutions on a consolidated basis (Official Gazette 1/2009, 75/2009, 2/2010 and 67/2013).

Entry into force

Article 390

This Act shall be published in the Official Gazette and shall enter into force on 1 January 2014, with the exception of the provisions of:

– Articles 191, 192, 194 to 198 and 202 to 205 of this Act, which shall enter into force on the date of application of the delegated act referred to in Article 387 of this Act;

– Article 189 of this Act, which shall enter into force on the date of application of the technical standards on the benchmark portfolio referred to in Article 78, paragraph (8) of Directive 2013/36/EU;

– Articles 118 to 125, Article 126, paragraphs (1) and (2), Articles 127, 128 and 132, and Article 164, paragraph (1), items (4), (5) and (6) of this Act, which shall enter into force on 1 January 2015; and

– Articles 135 to 138 of this Act, which shall enter into force on 1 January 2016.

Class: 022-03/13-01/327

Zagreb, 18 December 2013

THE CROATIAN PARLIAMENT

The President of the Croatian Parliament
Josip Leko, m. p.